



NATIONAL ENDOWMENT FOR THE HUMANITIES

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**PERFORMANCE & ACCOUNTABILITY REPORT
FISCAL YEAR 2006**

November 15, 2006

NATIONAL ENDOWMENT FOR THE HUMANITIES

Performance and Accountability Report Fiscal Year 2006

TABLE OF CONTENTS

I. Management's Discussion and Analysis

Message from the NEH Chairman	1
Overview of the PAR.....	4
Mission and Organizational Structure	4
Highlights of Performance Goals and Results	5
Brief Analysis of Financial Statements	9
Systems, Controls, and Legal Compliance	11
Effects of Existing Events and Conditions	13
Other Management Initiatives and Issues	13
Organizational Chart	16

II. Performance Information

Summary of Performance Highlights	17
Performance Data and Analysis	19

III. Financial Information

Message from the NEH Director of Accounting	57
Agency Financial Statements and Auditor's Report	59
NEH Inspector General's Summary of Management Challenges....	91
Chairman's Response to Inspector General's Summary	94

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PERFORMANCE AND ACCOUNTABILITY REPORT
Fiscal Year 2006

I. MANAGEMENT'S DISCUSSION AND ANALYSIS

Message from the Chairman of the National Endowment for the Humanities

I am pleased to present the Performance and Accountability Report for the National Endowment for the Humanities (NEH) for fiscal year 2006. The report sets forth the agency's goals and objectives and highlights our related accomplishments for the year just concluded. Also included in the report is information on the Endowment's finances and operations during the year.

NEH is an independent federal agency that was created by an act of Congress in 1965. It is the largest single source of support for humanities projects and programs in the United States.

NEH's overarching goal is to advance knowledge and understanding in the humanities in the United States. We are also committed to broadening awareness of, access to, and participation in the humanities. We do this by cultivating the best scholarship, education, and public programming in the humanities. Identifying excellence in the humanities enables and furthers the study of human history and culture, thereby enriching the lives of all Americans and better equipping them to participate fully as citizens in our ongoing experiment in democracy.

We are confident that the data and information contained in this Performance and Accountability Report will clearly demonstrate the continuing value and importance of our programs and activities to the American people.

Some of our notable accomplishments during fiscal year 2006 include:

- The continuing success of the Endowment's and the Administration's We the People program, which President Bush helped to launch in 2002 at a special White House Rose Garden ceremony. Since that time, NEH has supported nearly 1,000 projects and put in place an array of dynamic new programs that are strengthening the teaching, study, and understanding of American history and culture. Among these new grant categories are: "Landmarks of American History and Culture" workshops for school teachers and community college faculty; a "National Digital Newspaper Program" to digitize millions of pages of historic newspapers; a new grant

opportunity, “Interpreting America's Historic Places,” that supports innovative public programming at the nation’s historic sites; and *We the People Bookshelf* awards, which make possible the distribution of classic works of literature to 2,000 school and public libraries annually.

- In the late summer of 2005, Hurricanes Katrina and Rita severely affected hundreds of historical, cultural, and educational institutions in the Gulf Coast region. Within days of Hurricane Katrina, I authorized up to \$1,000,000 in Chairman’s emergency grants (awards of up to \$30,000) for salvage and recovery efforts of cultural institutions in the disaster areas. The Endowment later made an additional \$250,000 available for this special initiative. In FY 2006, we awarded more than 40 grants to state humanities councils in Louisiana, Mississippi, Texas, and Alabama, and to museums, libraries, archives, and other organizations who sought emergency assistance. These small grants combined rigorous review with minimal bureaucratic burden and within weeks targeted dollars were flowing directly to those who were salvaging precious books, documents, and artifacts.
- In FY 2006, the Endowment launched a major, multi-year Digital Humanities Initiative that will encourage and support projects that utilize or study the impact of digital technology on research, education, preservation, and public programming in the humanities. Through this initiative, NEH will foster the growth of digital humanities and support a wide variety of projects, including, for example, those that deploy digital technologies and methods to enhance our understanding of a topic or issue in the humanities; those that explore the ways in which technology changes how we read, write, think, and learn; and those that digitize important materials, thereby increasing the public’s ability to search and access humanities information. The initiative will consist of a number of discrete new grant categories as well as special emphases in our current programs. The first grant awards will be made in FY 2007.
- In the past year, NEH also strengthened ongoing strategic partnerships and forged new alliances with other agencies and nonprofit organizations in an effort to broaden the reach of our programs. These partnerships include a long-term collaboration with the Library of Congress to digitize historic American newspapers and mount them online; a unique initiative with the National Science Foundation to record, document, archive, and study the estimated 3,000 spoken languages in the world that are in danger of extinction; a cooperative agreement with the American Library Association in support of the NEH *We the People Bookshelf* program; a partnership with the Japan-United States Friendship Commission to support American scholarship on Japanese history, politics, and culture; and a partnership with the Library of Congress in support of the Library’s Kluge Fellows Program, which enables junior scholars from the U.S. and abroad to conduct research in the Library’s rich humanities collections. The Endowment also continues to collaborate with the National Endowment for the Arts, the Institute of Museum and Library Services, the President’s Committee on the Arts and the Humanities, and the National Trust for Historic Preservation on the National Parks Service’s “Save America’s Treasures” program. “Save America’s Treasures” is a national effort to protect America's

threatened cultural treasures, including historic structures, collections, works of art, maps, and journals that document and illuminate the history and culture of the United States.

The financial and performance data contained in this report are, to the best of my knowledge, reliable and complete. During the course of the independent auditor's review of the agency's internal controls, one material weakness was brought to our attention. That weakness—and the steps being taken by NEH to address it—are described fully in the "Management's Discussion and Analysis" section that follows.

The National Endowment for the Humanities is in substantial compliance with the requirements of the Federal Managers' Financial Integrity Act of 1982. I am pleased to note that a deficiency documented in last year's review, related to the inability of NEH to meet certain financial reporting requirements in FY 2005, has been remedied and all FY 2006 reports were prepared and submitted in compliance with the pertinent federal requirements.

Bruce Cole
Chairman

November 15, 2006

Overview of Performance and Accountability Report

Mission Statement and Organizational Structure

Because democracy demands wisdom, the National Endowment for the Humanities serves and strengthens our Republic by promoting excellence in the humanities and conveying the lessons of history to all Americans. The Endowment accomplishes this mission by providing grants for high-quality humanities projects in four funding areas: preserving and providing access to cultural resources, education, research, and public programs.

--NEH Mission Statement

In the 1965 legislation that established NEH, the Congress of the United States declared that "encouragement and support of national progress . . . in the humanities . . . , while primarily a matter of private and local initiative, is also an appropriate matter of concern to the Federal Government." Acknowledging the federal government's interest in "promoting progress in the humanities," the 89th Congress expressed this interest in a single, powerful observation: "Democracy demands wisdom and vision in its citizens."

The Endowment helps Americans develop "wisdom and vision" by expanding their knowledge of human history, thought, and culture. NEH grants are awarded to the nation's educational and cultural institutions, such as museums, archives, libraries, colleges, universities, and public television and radio stations. The agency also provides grants to individuals to undertake advanced research and scholarship in the humanities.

The Endowment is directed by a Chairman, who is appointed by the President of the United States and confirmed by the U.S. Senate for a term of four years. Advising the Chairman is the National Council on the Humanities, a board of 26 distinguished private citizens who are also appointed by the President and confirmed by the Senate. National Council members serve staggered six-year terms.

The agency's grant programs are organized into four divisions (Education Programs, Preservation and Access, Public Programs, and Research Programs) and two offices (Federal/State Partnership and NEH Challenge Grants). These programs are complemented by an agency-wide program—called *We the People*—that encourages and supports projects on the teaching, study, and understanding of American history and culture. In FY 2006, the Endowment also launched a new agency-wide Digital Humanities Initiative, which is designed to foster the growth of digital technologies in research, education, preservation, and public programming in the humanities. The first projects supported under this initiative will be awarded in FY 2007.

The agency's grant programs receive approximately 4,750-5,000 grant applications annually. Applications are evaluated by knowledgeable persons outside NEH who are asked for their judgments about the quality and significance of the proposed project.

Nearly 800 scholars, teachers, museum curators, filmmakers, and other humanities professionals and experts serve on the approximately ad hoc 175 panels that are convened through the course of the year. Panelists represent a diversity of disciplinary, institutional, regional, and cultural backgrounds. The advice of evaluators is assembled by NEH staff, who may comment on matters of fact or on significant issues that would otherwise be missing from the review. These materials are then presented to the National Council on the Humanities, which meets quarterly to advise the Chairman of NEH. The Chairman takes into account all of the advice provided via the review process and, by law, is authorized to make the final decision about funding.

NEH made awards to 1,079 humanities projects in FY 2006. An additional 2,000 grants were made through the agency's cooperative agreement with the American Library Association in support of the agency's *We the People Bookshelf* program, in which public and school libraries receive sets of classic works of literature that convey important themes from American history and culture.

Highlights of Most Important Performance Goals and Results

The Government Performance and Results Act of 1993 stipulates that federal agency strategic plans are to be updated and revised at least every three years. Accordingly, with three years having passed since the last review of our plan, in FY 2006 the Endowment conducted a comprehensive review of its strategic goals and objectives. In addition to internal review and analysis, the agency also canvassed the thoughts and ideas of its key external stakeholders and developed a revised strategic plan, which now covers fiscal years 2007 through 2012.

NEH works to fulfill its legislated mission through the pursuit of two broad strategic goals—to advance knowledge and understanding in the humanities in the United States and to broaden public awareness of, access to, participation in, and support for the humanities. A third, related goal is to enhance the quality of service and efficiency of our operations.

Our primary programmatic goal—to advance knowledge and understanding in the humanities in the United States—is informed by nine objectives:

1. Facilitate basic research and original scholarship in the humanities.
2. Strengthen teaching and learning in the humanities in U.S. schools and higher educational institutions.
3. Preserve and increase the availability of cultural and intellectual resources essential to the American people.
4. Provide opportunities for Americans to engage in lifelong learning in the humanities.

5. Strengthen the institutional base of the humanities.
6. Maintain and strengthen partnerships with the state humanities councils.
7. Enhance the teaching, study, and understanding of the nation's history, culture, and principles.
8. Develop collaborative partnerships with individuals and institutions in support of the humanities.
9. Stimulate third-party support for humanities projects and programs.

Performance indicators have been developed for each of these objectives. The indicators help us assess the outcomes of the projects we support and the extent to which they advance the agency's long-term goals. Because FY 2006 has just drawn to a close, however, we cannot report on actual outcomes related to most of our grant-making activity during the year. The vast majority of projects we support in any given year will not be completed during that year. Not only are many NEH grants two- and three-year projects, the outcomes of most will not accrue until many years after the grant has been completed—for example, fellowships and stipends awarded to scholars to conduct advanced research in the humanities often will not result in the publication of books or essays until five or more years after the grant period has ended. The outcomes of these grants will thus need to be reported in future performance reports.

The results of NEH grants awarded in prior years suggest that our programs continue to be effective instruments in advancing the Endowment's goals and objectives. One notable highlight of the last three years is the impressive record of the agency's new *We the People* program. NEH and the Bush Administration announced this program in 2002, which is aimed at reinvigorating the teaching, study, and understanding of American history and culture. The program is a response to the findings of numerous studies and reports that have repeatedly shown that Americans—particularly our young people—do not know their nation's history as well as they should. For example, a National Assessment of Educational Progress (U.S. Department of Education) test of students' knowledge of American history indicated that 57 percent of twelfth-graders score below even the most basic achievement level in this important subject. Over half of high school seniors could not say who the United States fought during World War II. Another study of college students at 55 elite universities revealed that more than a third of the students were unable to identify the Constitution as establishing the division of power in our government, and that forty percent could not place the Civil War in the correct half-century. The findings of a related study suggest one of the reasons for this poor performance—not one of these institutions currently requires its students to study American history.

Some of the major accomplishments of the *We the People* program during its first three years include:

- Nearly 1,000 grant applications submitted to the agency's core programs have received *We the People* funds for meritorious projects on American history and culture.
- State humanities councils in each of the fifty states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, the Commonwealth of the Northern Mariana Islands, American Samoa, and Guam have developed high quality local and statewide projects and programs on American history and culture.
- NEH created a new "Landmarks of American History and Culture" program to support enrichment workshops for K-12 teachers and community college faculty at important historical sites around the nation. Since its inception, the program has funded 148 workshops in 44 locations nationwide, serving nearly 6,000 high school and community college educators.
- NEH and the Library of Congress forged a partnership to support a new "National Digital Newspaper Program" to begin converting microfilm of newspapers from 1836 to 1922 into fully searchable digital files and to mount the files on the Internet. Six initial awards have been made for newspapers in Virginia, California, Florida, Kentucky, Utah, and New York.
- In partnership with the American Library Association (ALA), the Endowment established a special *We the People Bookshelf* program for the nation's school and public libraries. To date, NEH and ALA have distributed free sets of classic works of literature to more than 4,000 libraries nationwide, all based around themes central to our history.

NEH's core grant programs also continue to support important humanities projects that increase Americans' knowledge and understanding of history, thought, and culture. Some notable accomplishments include:

- In the last five years, former recipients of NEH research fellowships and stipends produced more than a thousand books and journal articles on important subjects in the humanities. Many of these publications have won academic, scholarly, and literary prizes, such as Pulitzer Prizes for history and biography, National Book Awards, and other awards for intellectual distinction.
- Rigorous summer institutes and seminars helped thousands of school and college teachers deepen their knowledge of a broad range of important humanities subjects related to their teaching. These intellectually refreshed teachers reach tens of thousands of American school children annually.
- Historically and culturally important holdings of the nation's libraries, archives, and museums were preserved and made accessible to scholars, students, and the public. For example, NEH-supported projects annually preserve the intellectual content of thousands of books and hundreds of thousands of pages of U.S.

newspapers and catalogue and preserve hundreds of thousands of archival documents, photographs, manuscripts, and objects of archaeological, ethnographic, and historical importance.

- NEH-supported projects annually produce award-winning television and radio documentaries, intellectually engaging exhibitions in museums and historical organizations, and reading and discussion programs in the nation's libraries that provide rich opportunities for Americans to engage in lifelong learning in the humanities.
- The agency has continued to be an effective agent for leveraging non-federal support for humanities projects and institutions. Through our Challenge Grants program and Treasury matching funds authority, NEH-supported projects annually receive more than \$40 million in donations.

The Endowment is always in the process of assessing and revising its mix of programs and grant categories in order to address changing needs and opportunities in the humanities. In 2006, for example, we established a new, agency-wide Digital Humanities Initiative that will help facilitate the growth of the use of digital technologies in the ways the humanities are researched, taught, studied, and presented throughout the nation. Several new grant programs have been established and others will be created as the initiative gathers momentum in the coming years. The initiative builds on the Endowment's many contributions to the digital humanities over the years and grows out of the proceedings of a major "summit" conference we convened in the spring of 2006, which brought together some of the best minds in this field. The initiative is also informed by the findings of a National Commission on Cyberinfrastructure for the Humanities and Social Sciences, which was sponsored by the American Council of Learned Societies.

The Endowment uses a variety of methods to ensure the effectiveness of our programs and policies. Reviewers who serve in our application review system, for example, not only evaluate the merits of grant proposals but also help us monitor the goals and objectives of our programs. NEH also routinely collects performance information from grantees after they have concluded their projects. In fact, award recipients are required to submit final narrative reports, in which they are asked to provide specific information about the results of their project. This information in turn helps us to assess the impact of our grant-making efforts.

From time to time, we also conduct surveys of former grantees to assess the impact of their projects and to gauge the effectiveness of our programming. For example, we recently conducted a special evaluation of one of our core programs, canvassing approximately 2,000 school teachers who attended Endowment-supported summer seminars and institutes between 1999 and 2002 to assess the quality of these programs and the impact they have had on participants' teaching and professional lives. Responses indicated an extremely high level of satisfaction: More than nine out of ten (94%) teachers judged the overall quality of the seminar or institute they attended to be

excellent or very good, and 93% compared seminars and institutes favorably to other (non-NEH) professional development opportunities for teachers. In 2006, we surveyed grantees in our Preservation Assistance Grants program, which provides small (\$5,000) grants to archives, libraries, museums and historical organizations to improve the institution's capacity to preserve its holdings and use its collections more effectively for work in the humanities. These are mostly small- and mid-sized institutions that normally do not avail themselves of the agency's other funding opportunities. The survey instrument asked grantees to assess the impact the NEH grant had on the institution's ability to preserve its humanities collections. We are now tabulating and analyzing the results of this survey. In FY 2007, we will conduct a survey of K-12 school teachers who participated in workshops supported through our new Landmarks of American History and Culture program, one of the Endowment's signature *We the People* grant programs. We will report on the results of this survey in our 2007 Performance and Accountability Report.

NEH also occasionally convenes groups of experts to advise us on the state of various fields, disciplines, and subjects in the humanities. In 2004, for example, we hosted a forum of more than 40 prominent scholars to discuss issues related to the history, culture, and ideas of our nation's colonial and founding periods. The forum provided an opportunity for professionals—historians, literary scholars, and political scientists—to communicate directly with the Endowment about the state of their disciplines as they relate to the nation's early history. The forum's proceedings also informed the Endowment's *We the People* program. More recently, as previously noted, we convened a meeting of scholars, educators, computer scientists, and other technology specialists to advise us as to how we might enhance our support for humanities projects involving the use of digital technologies. The meeting yielded many excellent suggestions and helped us develop our new Digital Humanities Initiative, a long-term strategy for promoting projects at the nexus of the humanities and technology.

Brief Analysis of Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the National Endowment for the Humanities, pursuant to the requirements of 31 U.S.C. 3515 (b). These statements are included in the Financial Section of the Performance and Accountability Report.

While the statements have been prepared from the books and records of the Endowment in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

The following is a brief analysis of the principal statements.

Balance Sheet

On the Balance Sheet, the Endowment's most significant asset is the Fund Balance with the U.S. Treasury of \$127.7 million. This balance principally represents funds to be paid in future years for grants awarded in fiscal year 2006 and prior fiscal years.

The Endowment's most significant liability is the grant liability of \$21.2 million. This balance represents an accrual for the amount of estimated unreimbursed grantee expenses, as of September 30, 2006.

The Endowment's net position consists primarily of Unexpended Appropriation of \$105.8 million. Unexpended Appropriation includes the portion of the Endowment's appropriation represented by undelivered orders and unobligated balances. Beginning with fiscal year 2006, the Balance Sheet now shows the portion of cumulative results of operations and unexpended appropriations for earmarked funds separately from all other funds on the face of the balance sheet.

Statement of Net Cost

The Endowment's Net Cost of Operations is \$139.4 million. This amount represents the gross cost incurred by the Endowment less any exchange revenue earned from its activities. By disclosing the gross and net cost of the Endowment's programs, the Statement of Net Cost provides information that can be related to the outputs and outcomes of the Endowment's programs and activities.

Statement of Changes in Net Position

This statement's format is designed to display both components of net position separately to enable the user to better understand the nature of Changes to Net Position as a whole. For fiscal year 2006 reporting, the beginning balance for the Cumulative Results of Operations has been increased by \$1.7 million and the beginning balance for Unexpended Appropriation has been decreased by \$1.7 million. For further information about these prior period adjustments, please see Note 10 of the Notes to the Financial Statements.

Statement of Budgetary Resources

This statement provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement predominantly derived from the Endowment's budgetary general ledger in accordance with budgetary accounting rules, which are incorporated into GAAP for the Federal Government. For fiscal year 2006, the Endowment had \$150.6 million in budgetary resources principally from funds appropriated by the U.S. Congress. The Endowment had net outlays of \$136.5 for fiscal year 2006.

Statement of Financing

This statement demonstrates the relationship between the Endowment's proprietary and budgetary accounting information. It links the net cost of operations (proprietary) with the net obligations (budgetary) by identifying key differences between the two

statements. For fiscal year 2006, two of the key differences are offsetting receipts of \$1.1 million and imputed financing costs of \$1.3 million.

Analysis of Systems, Controls, and Legal Compliance

In fiscal year 2006 NEH benefited from two opportunities to review its internal controls and to make needed improvements:

(1) This past year we again engaged the services of Leon Snead & Company (“Snead”) to conduct NEH’s annual audit. During the first phase of the FY 2006 audit, Snead undertook a review of our systems and procedures as part of the agency’s financial statement audit. Snead brought four findings (“Exceptions”) to our attention, with one categorized as a material weakness. In the following months we took a number of steps to correct the deficiencies noted.

The Exception that was categorized a material weakness was described by Snead as follows:

The current NEH [Oracle] system access authorities do not provide adequate separation of incompatible duties. This issue was reported as a material weakness in the Independent Auditor’s Report on the fiscal year 2005 financial statements. During our review of current year access authorities, we noted that NEH had separated a number of incompatible roles compared to the previous year. However, some incompatibilities remain.

Snead’s recommendation associated with this Exception was as follows:

We recommend that NEH continue to re-evaluate and re-align its financial management system security structure to separate incompatible duties, including system-enforced separation of mission and information system support functions.

In responding to this Exception, NEH agreed with the facts as presented and concurred in the recommendation. We noted that NEH’s Office of the Inspector General (OIG) had recently brought to NEH management’s attention a similar set of concerns about the lack of appropriate separation of duties among users of NEH’s Oracle accounting system. (The OIG’s report included a series of recommendations that, coincidentally, paralleled and extended those offered by the Snead in this Exception.) We further noted that NEH management had concurred in the findings and recommendations of the OIG report and in response had outlined a series of steps to address the shortcomings described in the report.

The likelihood of a successful outcome in carrying out this Exception’s recommended action has been greatly enhanced by the hiring of a new Director of Accounting earlier this year. His arrival, coupled with the expected hiring of a systems accountant later this year, will enable NEH to successfully realign our financial management security structure in ways that are responsive to the auditors’ and OIG’s concerns.

(2) A second opportunity to review NEH's internal controls occurred in connection with the agency's annual review of its operations and procedures to identify possible deficiencies in management controls. This review, which was conducted pursuant to the Federal Manager's Financial Integrity Act of 1982 (Integrity Act), enables the agency to provide reasonable assurance that it is in compliance with the requirements of the Integrity Act.

As a result of our FY 2006 Integrity Act review, NEH assures that its internal management controls are adequate and effective for controlling waste, fraud, abuse, and mismanagement of resources. This said, the annual review highlighted several management challenges that the agency will need to address:

- a. Internal financial reporting. In FY 2006 NEH made significant strides in the development and distribution of monthly reports on the status of administrative and program funds. With the help of an outside consultant, new reporting templates were designed and implemented for the purpose of providing office heads with current accounting data drawn from the agency's Oracle accounting system. Because of several unexpected technical difficulties, however, the reports were not always accurate, nor were they distributed on a timely or regular basis. Consequently, the ability of some divisions and offices to monitor their administrative and programmatic funding allocations was limited. To remedy this problem, we are now working with an Oracle application program ("Discoverer") to develop new reports that will address the needs of staff. We expect to begin testing these reports in the coming weeks, with distribution to all offices beginning in November or December of this year.
- b. Employee Performance Appraisal System. Of the seventeen offices that responded to the agency's annual internal controls questionnaire, twelve (70%) reported that annual employee performance appraisals were not being conducted on a timely basis, and many also reported that other key requirements were similarly being ignored. Required mid-year reviews, for example, are not being conducted in a substantial number of cases. And many supervisors do not prepare performance plans for their employees until the end of the performance year. To address this series of related problems, NEH is planning to conduct mandatory, half-day training programs for all supervisors in the coming year. Further, supervisors of supervisors will also be given strong encouragement to hold their subordinates accountable for complying with all appraisal-related requirements.

Possible Future Effects of Existing Events and Conditions

As we noted in last year's report, the continuing uncertainty over NEH's future in the Old Post Office (OPO) building presents the agency with a variety of planning and budgetary challenges. For the past decade or so we have been told that we were likely to be moved out of the building to permit the OPO to be fully renovated and then leased to a

commercial tenant. In response to these expressions of intent, we have engaged in a variety of planning efforts to identify suitable alternative space and to budget for a major move. To date, however, nothing has come to pass—even though we have been approached by hopeful lessors as recently as September of this year—and consequently we have turned most of our space-related planning attentions elsewhere. However, should we learn in the coming year that a move is in fact going to happen, we will need to act quickly and nimbly to assure that we acquire suitable space at a rental rate we can afford, while also gearing up quickly to manage the myriad logistical details that are associated with a relocation of this scale.

Another challenge we face in the coming years is managing a wave of expected employee retirements. The current age profile of NEH's workforce skews heavily toward retirement-age workers. As a case in point, more than a third of our 39 program officers—who represent the backbone of our grant-making staff—are already eligible to retire but for various reasons have chosen to continue working for a while longer. This cohort of program staff, along with numerous office directors who have similarly met the eligibility criteria for retirement, can depart the agency at a time of their choosing. This looming brain drain poses significant challenges for NEH management, as the departing employees will take with them a wealth of knowledge, skills, and institutional memory that will not easily be replaced.

Other Management Information, Initiatives, and Issues

In fiscal year 2006, NEH continued to be a key player in helping to advance an important component of the President's Management Agenda: "Expanded Electronic Government." Among our many accomplishments in this area are the following:

Grants.gov

The NEH has been actively participating in the Grants.gov project, the federal government's new online portal for grant-making agencies. The Endowment has all of the agency's funding opportunities posted on Grants.gov FIND, the comprehensive listing of federal grant opportunities. The Endowment built, tested, and deployed a "system to system interface" that allows us to receive applications electronically from Grants.gov and import them directly into our Grants Management System. This interface was developed in-house at no cost.

NEH's Chief Information Officer serves on the Grants Executive Board (GEB), which has oversight of the Grants.gov program. At the request of NEH and other smaller grant-making agencies, the GEB reduced the Endowment's yearly monetary contribution to the Department of Health and Human Services (HHS), the agency that manages this government-wide program, from \$226,340 to \$130,000, beginning in FY 2007. NEH's payments to HHS help fund the Grants.gov "Help Desk." This means that the Endowment's applicants can call or e-mail the "Help Desk" Monday-Friday to receive assistance about applying for government grants via Grants.gov.

Grants.gov now makes it possible for NEH to receive grant applications completely electronically. Because this in turn enables us to view and route applications electronically, NEH's peer reviewers can now read and evaluate applications online via the Web. Receiving applications electronically also allows us to do away with thousands of sheets of paper. In addition, since applicant information is imported automatically from Grants.gov, NEH staff no longer has to key this information manually into our grants database.

Grants Management Line of Business Initiative

Currently, every grant-making agency supports the cost for its own grants processing system. Many of the large agencies have more than one such system: There are more than 100 different grants processing systems in use government-wide, which adds up to many millions of dollars spent each year. In an attempt to consolidate and streamline these systems, the Office of Management and Budget is strongly encouraging agencies to "cross-service" one another in the area of grant management. The idea behind OMB's Grants Management Line of Business (GMLOB) initiative is to have a small number of agencies provide grants servicing to all the other agencies. Hence, in theory, the taxpayer would not be footing the bill for 100+ grant systems.

Among smaller agencies, NEH is known as having one of the best grants systems. The Endowment has proposed to the GMLOB that NEH be a provider of grants services to other agencies. To this end, in FY 2006 we entered into an agreement with the National Archives and Records Administration (NARA) to provide grant management system support for NARA's National Historical Publications and Records Commission program. This arrangement obviates the need for NARA to maintain its own, stand-alone database for processing federal grant applications and administering awards.

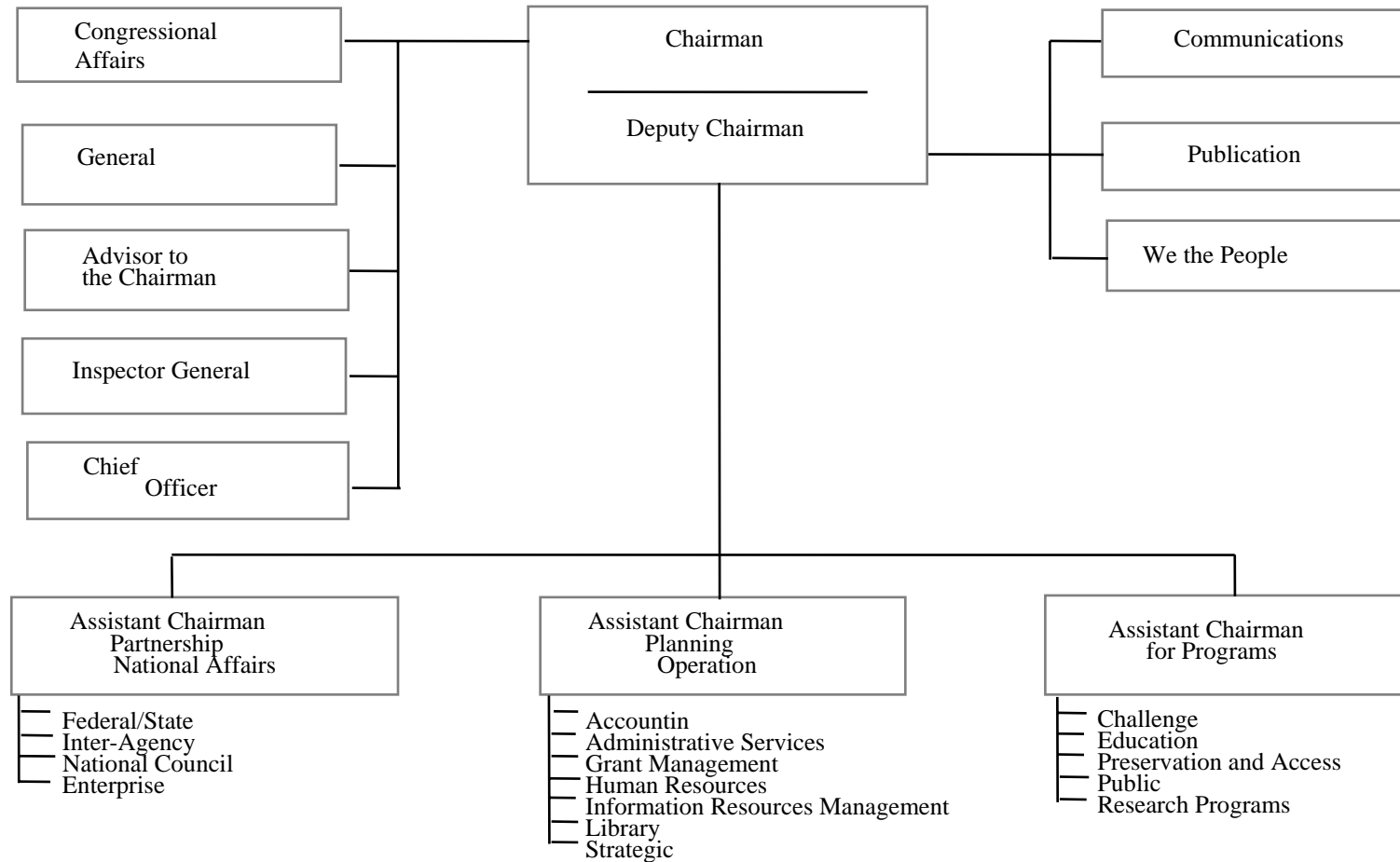
Other E-Gov Initiatives

NEH is also participating in two other electronic initiatives:

- E-Travel: As with all other federal agencies, NEH is moving to an all-electronic travel system that will provide a Web-based, end-to-end travel management system for our employees. The system aims to automate and consolidate agencies' travel processes, from initial planning to final reimbursement. All federal employees will be required to use it when the system is fully implemented. The e-Travel system should introduce significant efficiencies into our travel planning and monitoring efforts. The Endowment began preparing for the transition to e-Travel in FY 2006; a vendor will be selected in FY 2007.
- E-Official Personnel File (e-OPF): This project will enable federal agencies to digitize employees' official personnel files, thus making possible immediate, desktop access to their key records. To save on costs, NEH has joined a consortium of other small agencies to undertake the needed planning and developmental work. By

working through the consortium, participating agencies may realize savings of up to 40 percent, as compared to going it alone.

National Endowment for the Humanities



February 2, 2006

II. PERFORMANCE INFORMATION

Summary of Performance Highlights

NEH grants provide crucial incentives for scholars to explore important subjects in the humanities; colleges and universities to invest in the professional development of teachers and faculty; museums to develop educational exhibitions; filmmakers to produce historical, biographical, and cultural documentaries that are grounded in excellent humanities scholarship; and state humanities councils to make cultural opportunities accessible in every community in the nation.

Among the tangible results of NEH grants awarded in FY 2006 are (or will be) the following:

- “Landmarks of American History and Culture” supported through the agency’s *We the People* program offered week-long workshops for 2,033 school teachers and community college faculty during the summer of 2006. Involving leading scholars and educators, the workshops took place at important historical sites around the country.
- Six projects supported in FY 2006 through the new National Digital Newspaper Program, in partnership with the Library of Congress, are creating a test bed of hundreds of thousands of digitized newspaper pages published between 1900 and 1910.
- Each of the 56 state humanities councils conducted programs in conjunction with the Endowment’s *We the People* program and 2,000 public libraries received a set of *We the People Bookshelf* volumes and public program materials on the 2006 theme, “Becoming American.”
- Books, journal articles, and conference presentations that will be produced by nearly every one of the 257 recipients of an NEH research fellowship or stipend and the 77 scholars who will conduct sabbatical projects at an NEH-supported independent research center.
- The conclusion or continuation of 99 long-term, collaborative research projects, including the editing and publication of the papers of Martin Luther King, Mark Twain, George Washington, Thomas Edison, and James and Dolly Madison; a documentary history of the first federal Congress; English translations of Immanuel Kant’s unpublished writings; and archeological excavations in Turkey, Greece, Mongolia, Guatemala, Ethiopia, and the North American Pacific coast.
- Rigorous institutes and seminars for 954 school and college teachers that will take place over four to six weeks during the summer of 2007. Under the guidance of

college and university faculty, the participants will deepen their knowledge of a variety of subjects related to their teaching.

- A variety of “Teaching and Learning Resources” projects that are helping to strengthen course curricula and develop new teaching materials for American classrooms. For example, Shimer College in Waukegan, Illinois, is integrating great art works into the college’s rigorous Great Books core curriculum; and the University of Texas, Austin is creating online access to the digital assets of Presidential libraries, including a timeline of twentieth-century Presidential administrations.
- The conclusion or continuation of 22 projects to create major reference works, including volumes of the *Encyclopaedia Iranica*, a multi-volume scholarly resource on the Near East and Central Asia; of *The Pennsylvania Sumerian Dictionary*; of the *Chicago Hittite Dictionary*; and of the *Dictionary of American Regional English*. In addition, 19 previously published volumes of the *Atlas of Historical County Boundaries* are being digitized and made available online.
- Two projects totaling more than \$420,000 were supported under the Endowment’s new “Rediscovering Afghanistan” initiative; and 15 grants totaling \$1.2 million were awarded through the NEH/NSF “Documenting Endangered Languages” initiative for projects to create, enhance, and deepen our knowledge of the estimated 3,000 currently spoken languages that are threatened with extinction in the near future.
- The historically and culturally important holdings of the nation’s libraries, archives, and museums are being preserved and made accessible to scholars and the public. Efforts supported in FY 2006 include the microfilming of nearly 19,650 brittle books and more than 1 million pages of U.S. newspapers.
- Projects for the general public begun during the year will produce 69 broadcast hours on television and radio; exhibitions that will be presented at 99 museums across the country and attract 7 million Americans; and more than 1,100 programs in libraries and other community-based sites. Previously supported productions for television and radio won two Emmys and three Peabody awards in 2005 and 2006.
- NEH Challenge Grants awarded to cultural institutions during the year began to leverage non-federal contributions for endowment building and capital investment projects that by 2009 will total nearly \$30 million.
- Sponsoring or conducting a broad spectrum of cultural activities—including book programs, exhibitions, lectures, teacher workshops, and local history projects—the state humanities councils reached millions during the year and gave the humanities a local presence in every part of the United States.

Fiscal Year 2006 Performance Report and Data from Three Previous Fiscal Years

INTRODUCTION

We are pleased to present the Performance and Impact section of our Performance and Accountability Report for fiscal year 2006. The purpose of this section of the report is to compare performance levels anticipated for fiscal year 2006 in the annual NEH Performance Budget with the performance outcomes that were actually achieved during that year. Projected and actual performance data for fiscal years 2003 through 2005 are also provided. Because the goals and indicators of the NEH Performance Budget are tied directly to and closely parallel the general goals and objectives in the Endowment's multi-year strategic plan, this report will also serve as a measure of the agency's progress in achieving its long-term strategic goals.

The results projected in the NEH Performance Plan may accrue over many years. In those cases, measured outcomes of FY 2006 and prior-year activity will be reported as partial results and revised in subsequent annual PARs. The performance indicators cited below are those embodied in the most recent version of the NEH Performance Budget and are projected from actual, rather than estimated, expenditures of appropriated funds. In what follows, projected performance indicators are shown in *italics*; measured performance outcomes in **bold**. Performance results that as of this writing remain incomplete are enclosed in parenthesis.

PERFORMANCE GOALS AND INDICATORS

A: To facilitate basic research and original scholarship in the humanities.

PERFORMANCE INDICATORS:

1) Support is provided that enables individual scholars to devote a concentrated period of time to research and writing on significant subjects in all fields of the humanities.

- FY 2006: Support was provided for 268/**257** individual scholars to make significant progress on important humanities research projects through fellowships and stipends.
- FY 2005: Funding enabled 323/**323** individual scholars to make significant progress on important humanities research projects through fellowships and stipends.

- FY 2004: Funding enabled 322/**322** individual scholars to make significant progress on important humanities research projects through fellowships and stipends.
- FY 2003: Funding enabled 287/**287** individual scholars to make significant progress on important humanities research projects through fellowships and stipends.

2) Support is provided for collaborative research projects that make significant intellectual resources available to scholars, teachers, students, and the general public.

- FY 2006: Support was provided for 44/(51) important long-term collaborative projects in the humanities such as scholarly editions, translations, archaeological excavations and analyses and other complex, large-scale undertakings. In addition, 48/(48) previously awarded grants were provided ongoing support through NEH matching funds, in part through the use of *We the People* funding.
- FY 2005: Support was provided for 43/**43** important long-term, collaborative projects in the humanities such as scholarly editions, translations, archaeological excavations and analyses, and other complex, large-scale undertakings. In addition, 47/**47** previously awarded grants received ongoing support through NEH matching funds, in part through the use of *We the People* funding.
- FY 2004: Support was provided for 49/**49** important long-term, collaborative projects in the humanities such as scholarly editions, translations, archaeological excavations and analyses, and other complex, large-scale undertakings. In addition, 43/**43** previously awarded grants provided ongoing support through NEH matching funds, in part through the use of *We the People* funding.
- FY 2003: Support was provided for 41/**41** important long-term, collaborative projects in the humanities such as scholarly editions, translations, archaeological excavations and analyses, and other complex, large-scale undertakings. In addition, 35/**35** previously awarded grants provided ongoing support through NEH matching funds.

3) The continued availability of humanities research programs offered by independent research centers and scholarly organizations is assured.

- FY 2006: Awards to 25/**24** humanities fellowship programs at independent research institutions are supporting the work of 90/**77** humanities scholars who will make significant contributions to scholarship in the humanities.

- FY 2005: Awards to 28/**21** humanities fellowship programs at independent research institutions are supporting the work of 90/**84** humanities scholars who are making significant contributions to scholarship in the humanities.
 - FY 2004: Awards to 27/**27** humanities fellowship programs at independent research institutions are supporting the work of 90/**83** humanities scholars who are making significant contributions to scholarship in the humanities.
 - FY 2003: Awards to 23/**27** humanities fellowship programs at independent research institutions are supporting the work of 121/**93** humanities scholars who are making significant contributions to scholarship in the humanities.
- 4) Support is provided for scholars at historically black, Hispanic-serving, and tribal colleges and universities around the nation.
- FY 2006: Support enabled 10/**9** individual scholars who teach at historically black, Hispanic-serving, and tribal colleges and universities to make significant progress on important scholarly projects in the humanities through faculty research awards.
 - FY 2005: Support enabled 15/**15** individual scholars who teach at historically black, Hispanic-serving, and tribal colleges and universities to make significant progress on important scholarly projects in the humanities through faculty research awards.
 - FY 2004: Awards enabled 19/**19** individual scholars who teach at historically black, Hispanic-serving, and tribal colleges and universities to make significant progress on important scholarly projects in the humanities through faculty research awards.
 - FY 2003: To increase award amounts and enhance administrative efficiency, grant application deadlines in the program that supports historically black, Hispanic-serving, and tribal colleges and universities were re-aligned with those in existing fellowship programs. In FY 2003, no new awards were made during the transition.

ANALYSIS:

Availability of data. The scholars who received NEH funding during FY 2006 undertook projects of varying length, from the three months of independent research and writing supported by a summer stipend to multi-year research collaborations. In the coming months and years, these projects will come to fruition in the form of journal articles, books, and scholarly editions. The annual submission of the NEH PAR will provide an excellent occasion to monitor and record the productivity of research in the humanities supported by the Endowment during the preceding three years. Increasingly,

the Endowment's Grants Management System (GMS) database will facilitate the aggregation of data about products, such as books and articles that result from activities supported by specific NEH grants. At present, it links information about approximately 4,500 humanities research awards in the Endowment's grant information database to bibliographic information about the approximately 3,200 published books that these projects produced between 1980 and 2005.

FY 2006 accomplishments. The Endowment facilitates basic research and original scholarship in the humanities primarily through two programs: NEH Fellowships and Stipends, which supports focused, sustained work by individual scholars; and Collaborative Research, which supports long-term, complex projects carried out by groups of scholars. Intensely competitive, NEH research grants are among the most coveted by American scholars.

Humanities research is typically communicated in books and articles; and, in the last five years, scholars who have received grants produced more than a thousand such publications. Although print continues to be the principal means of disseminating humanities scholarship, NEH grantees increasingly are making the results of their research available in electronic formats, such as interactive World Wide Web.

The Fellowships and Stipends Program provides opportunities for individual scholars and teachers to undertake advanced research in the humanities. There are several award categories: six- to twelve-month fellowships for university and college teachers and independent scholars; short-term stipends for the summer months; and Faculty Research Awards for historically black, Hispanic-serving, and tribal colleges and universities. Over the years, the Endowment has also forged a number of strategic partnerships to support the work of American scholars. Currently, the NEH administers the review and evaluation of applications to the Library of Congress's John W. Kluge Fellows Program, which provides stipends to junior scholars from the U.S. and abroad to conduct research in the Library's humanities collections; and, in collaboration with the Japan-United States Friendship Commission, it conducts the evaluation of applications and serves as fiscal agent for a program to encourage American scholars' research on Japan. In addition, the Endowment has embarked on a multi-year funding partnership with the National Science Foundation, "Documenting Endangered Languages," which provides NEH awards to scholars engaged in developing and advancing knowledge concerning dying languages. This collaboration is made urgent by the imminent demise of an estimated half of the 6,000-7,000 currently used languages worldwide.

Nearly all grantees report success in publishing books and articles or making conference presentations based on their research, and many also report that their research enriched their teaching. Fellowship-supported projects win illustrious prizes. A recent case in point is the 2006 Pulitzer Prize in Biography, which was awarded to *American Prometheus: The Triumph and Tragedy of J. Robert Oppenheimer* by Martin J. Sherwin and Kai Bird. Sherwin, Professor of History at Tufts University, began work on this project with the support of an NEH Fellowship.

The Collaborative Research program includes three categories—Collaborative Research, Scholarly Editions, and Fellowship Programs at Independent Research Institutions. Through these grants, the Endowment supports scholarly activities conducted by teams of researchers and fellowship programs administered by centers for advanced study in the humanities and international research organizations. Collaborative Research and Scholarly Editions often involve large scholarly enterprises, and many include partnerships with other public funding sources, private foundations, colleges and universities, and individual donors.

Through Collaborative Research grants, the Endowment supports teams of researchers involved in large-scale translation projects, archaeological research, research conferences, and wide-ranging, synthetic studies of important topics in the humanities. Recent awards are supporting a variety of projects, including a study of the scientific education of early British entrepreneurs and the ways in which their knowledge facilitated the industrial revolution; English translations of Immanuel Kant's unpublished writings in political philosophy; preparation for publication, both in print and online, of the Greek texts of extant laws from ancient Crete, along with translations and commentaries; and preparation of a searchable database and a history of musical life in New York City between 1862 and 1876.

The Scholarly Editions category supports the preparation of texts and documents that are not readily accessible or are available only in inadequate editions. Projects involving significant literary, philosophical, and historical materials are typical, but other types of work, such as history, criticism, and theory of the arts, also are supported. Because the majority of Editions projects involve U.S. history and culture, these grants make an important contribution to the Endowment's *We the People* program. Scholarly Editions grants have supported, for example, the papers of presidents such as George Washington, John Adams, Abraham Lincoln, Ulysses Grant, and Dwight David Eisenhower; the writings and papers of George C. Marshall, Ernest Hemingway, Ralph Waldo Emerson, and Willa Cather; and the prize-winning edition of the journals of the Lewis and Clark Expedition. Among the most significant volumes published in fiscal year 2006 was Volume 15 of *The Correspondence of Charles Darwin*, the work of an editorial team led by Frederick Burkhardt; and the publication, by the University of North Carolina Press and the Omohundro Institute of Early American History and Culture in Williamsburg, of the final volume of *The Papers of John Marshall*, a project supported by NEH for many years.

The Fellowship Programs at Independent Research Institutions (FPIRI) supports residential fellowships offered by U.S. research centers located at home and abroad, and fellowships awarded under the auspices of U.S. organizations that facilitate international research. NEH's FPIRI fellows have a long and distinguished publications record. For example, Aline Helg, a fellow at the National Humanities Center in North Carolina, recently published *Liberty and Equality in Caribbean Colombia, 1770-1835*. Carla Pestana, a Huntington Library fellow, produced *The English Atlantic in an Age of Revolution, 1640-1641*. Jeremy Popkin's *History, Historians, and Autobiography* began with a National Humanities Center fellowship; and Richard Schoch completed a study of

Queen Victoria and the Theater of Her Age with assistance from a FPIRI fellowship at the Folger Shakespeare Library.

B: To strengthen teaching and learning in the humanities in schools and colleges across the nation.

PERFORMANCE INDICATORS:

1) Efforts by the nation's elementary and secondary schools and institutions of higher education to improve their students' knowledge and understanding of the humanities are encouraged and supported.

- FY 2006: *Twenty-three*/**Eighteen** Teaching and Learning Resources (Materials Development and Curriculum Development) projects will improve the quality and dissemination of instructional models and materials for more than 650/(500) school and college teachers of the humanities, reaching more than 90,000/(62,500) students annually.
- FY 2005: **Eighteen** Teaching and Learning Resource awards (Materials Development and Curriculum Development) improved the quality and dissemination of instructional models and materials for more than 490/**490** school and college teachers of the humanities, reaching more than 60,000/**61,250** students annually.
- FY 2004: Education Development and Demonstration (Exemplary Education Projects) was replaced by a new category, Teaching and Learning Resources. In FY 2004, **23** Teaching and Learning Resource projects (Materials Development and Curriculum Development) improved the quality of instructional models and materials for more than 620/**620** school and college teachers of the humanities, reaching more than 90,000/**90,000** students annually.
- FY 2003: **Sixteen** Education Development and Demonstration awards improved the quality of instructional materials and enhanced the professional development of more than 430/**430** school and college teachers of the humanities, reaching more than 64,000/**64,000** students annually.

Twenty-four Humanities Focus Grants enabled groups of school and/or college teachers totaling 360/**360** to work together on the study of specific humanities topics or the planning and designing of new courses.

2) Teachers are provided opportunities to renew and deepen their knowledge and understanding of the humanities.

- FY 2006: Support for **54/49** NEH summer seminars and institutes will enable **535/(514)** college teachers and **560/(440)** school teachers to revitalize their knowledge and teaching of the humanities. College teachers participating in seminars and institutes during the summer of 2007 will reach approximately **94,000/(90,000)** students annually; school teacher participants will reach **70,000/(55,000)** students annually.

Because the deadline for the program was moved from April to September, there was no Faculty Humanities Workshops deadline during FY 2006.

Support for **19/19** Landmarks of American History and Culture workshops enabled **2,000/1,724** school teachers to revitalize their knowledge and teaching of American history and culture, particularly as it relates to the relationship between specific sites and the episodes in history associated with that location. These teachers will reach **242,000/215,500** students annually.

Support for **7/7** Landmarks of American History and Culture for Community College Faculty, enabled **200/309** community college teachers to reach approximately **35,000/54,000** students with their revitalized knowledge, understanding, appreciation, and teaching of American history and culture, particularly as it relates to the relationship between specific sites and the episodes in history associated with them.

- FY 2005: Support for **48** NEH summer seminars and institutes enabled **400/374** college teachers and **520/562** school teachers to revitalize their knowledge and teaching of the humanities. College teachers participating in seminars and institutes during the summer of 2006 will reach **70,000/60,000** students annually; school teacher participants will reach approximately **65,000/70,000** students annually.

Seventeen Faculty Humanities Workshops enabled groups of school and/or college teachers (totaling **342**) to work together on the study of specific humanities topics or the planning and designing of new courses. Workshop participants are reaching approximately **42,750** students annually.

Support for **15** Landmarks of American History workshops enabled **1,600/1,511** school teachers to revitalize their knowledge and teaching of American history, particularly as it relates to the relationship between specific sites and the episodes in history that have taken place at that location. These teachers will reach **190,000/188,875** students.

Support for **5** projects under the new category, "Landmarks of American History for Community College Faculty," enabled **200/190** community college teachers to reach **35,000/33,000** students with their revitalized knowledge, understanding, appreciation, and teaching of American History,

particularly as it relates to the relationship between specific sites and the episodes in history associated with them.

- FY 2004: Support for **58** NEH summer seminars and institutes enabled **565/571** college teachers and **560/580** school teachers to revitalize their knowledge and teaching of the humanities. College teachers participating in seminars and institutes during the summer of 2005 are reaching **98,875/100,000** students annually; school teacher participants reach approximately **70,000/73,000** students annually.

A new category, “Faculty Humanities Workshops,” was established in FY 2004. **Sixteen** workshops enabled groups of school and/or college teachers (totaling **337**) to work together on the study of specific humanities topics or the planning and designing of new courses.

A new category, “Landmarks of American History,” was funded in FY 2004. **Seventeen** workshops enabled **1,895** school teachers to revitalize their knowledge and teaching of American history, particularly the history associated with specific historical sites where important episodes of history took place. These teachers are reaching **237,000** students annually with enriched instruction of American history.

- FY 2003: Support for **51** NEH summer seminars and institutes enabled **419/357** college teachers and **640/651** school teachers to revitalize their knowledge and teaching of the humanities. Participating college teachers will reach **73,000/62,000** students annually; school teacher participants will reach **80,000/81,000** students annually.

Fourteen school teachers from across the nation shared with their fellow teachers the valuable scholarly and curricular information gained in seminars and institutes through second-year dissemination grants.

3) The use of digital information technologies in American classrooms is encouraged and supported.

- FY 2006: Of the **23/18** Teaching and Learning Resources awards, **18/17** awards will significantly use digital technologies as part of their project and initially reach **486/476** teachers and **60,000/59,024** students.
- FY 2005: Projects using digital information technologies in American classrooms were reviewed in Teaching and Learning Resources. Of the **18** Teaching and Learning Resource projects supported, **18/17** significantly used digital technologies as part of their project and initially reached **486/476** teachers and **60,000/59,024** students.

- FY 2004: Projects using digital information technologies in American classrooms were reviewed in the new category, “Teaching and Learning Resources.” Of **twenty-three** Teaching and Learning Resource projects supported, *17/20* involve significant use of digital technologies and initially reached *459/ 540* teachers and *68,000/80,000* students.
- FY 2003: The NEH Schools for a New Millennium category provided implementation awards to *4/4* schools and *80/80* teachers to improve their ability to use new information technologies in teaching the humanities to *12,000/12,000* students. (This category has been discontinued. In FY 2004, projects to develop applications for digital technologies in the classroom are being supported in a new Teaching and Learning Resources program.)

4) Increased support for quality education programming is available in all areas of the country.

- FY 2006: In FY 2006, the Humanities Initiatives for Faculty replaced the Institutional Grants Program. The Humanities Initiatives for Faculty program provided *9/10* grants to historically black, Hispanic-serving, and tribal colleges and universities to support infrastructure for improvements in humanities instruction.
- FY 2005: The Institutional Grants program provided **6** grants to historically black, Hispanic-serving, and tribal colleges and universities to support infrastructure for improvements in humanities instruction.
- FY 2004: The Institutional Grants program provided **7** grants to historically black, Hispanic-serving, and tribal colleges and universities to support infrastructure for improvements in humanities instruction.
- FY 2003: The Extending the Reach Institutional Grant program provided **18** grants to historically black, Hispanic-serving, and tribal colleges and universities to support infrastructure for improvements in humanities instruction.

ANALYSIS:

Availability of data. Because none of the above education projects supported by the Endowment during FY 2006 had concluded at the time this report was prepared, data are not yet available on the numbers of participating teachers and the numbers of students each teacher may be expected to affect annually. Most of the missing data on project outcomes will be supplied in the coming year as project personnel submit their regularly scheduled interim and final reports. We anticipate that we will be able to provide nearly complete data on the FY 2006 performance indicators in the FY 2007 NEH PAR. (Note: Aggregate data on the numbers of students reached are derivative from data supplied by

project directors on the numbers of participating teachers in their project. The algorithms used to derive the numbers of students reached are revised periodically based on information that project directors provide in their final reports.)

FY 2006 accomplishments. The Endowment's Teaching and Learning Resources program focuses on classroom resources as the deliverable grant product. Teaching and Learning Resources has two primary grant categories. Curriculum Development Grants help educators marshal the necessary resources to launch broadly based curricular efforts of national significance, such as a project at Shimer College in Waukegan, Illinois, to integrate great art works into a rigorous Great Books core curriculum. Materials Development Grants support the creation and wide dissemination of print, video, and digital instructional materials. Examples include a recent award to the University of Texas, Austin, that is supporting the development of a structure that will bring together the digital assets of Presidential libraries, including a timeline of twentieth-century Presidential administrations, the major events they encountered, and the decision-making process brought to bear on these events.

Part of the Endowment's Professional Development Program, NEH Summer Seminars and Institutes have long been the nation's premier form of professional development in the humanities for elementary and secondary school teachers. NEH offers college and school teachers opportunities to pursue serious, substantive intellectual inquiry in fields such as history, languages, literature, philosophy, and political science. Working with distinguished scholars, participants deepen their knowledge of the subjects they teach and explore effective ways of bringing this understanding to their students.

Summer Seminars enable fifteen school or college teachers to study for two to six weeks under the guidance of a senior scholar. The principal goal is to engage teachers in the scholarly enterprise that leads to deep understanding and outstanding teaching. In Summer Institutes, school or college teachers participate in an intensive program of study with teams of humanities scholars that present a broad range of perspectives on a given topic. Well suited to larger groups (as many as thirty-five school teachers or twenty-five college teachers), institutes also last from two to six weeks and are a particularly appropriate mechanism for creating foreign language immersion opportunities. Increasingly, both seminars and institutes have been integrating digitized materials with the more typical printed books and articles.

Seminars and institutes supported in FY 2006 will be offered during the summer of 2007. Literature teachers will be able to choose seminars or institutes focusing on the plays of William Shakespeare; literary works of Mark Twain; Chaucer's *Canterbury Tales* and its cultural context; major modern French drama by Sartre, Genet, Ionesco, and Beckett; and the works of John Steinbeck. Teachers of history might choose to study the rise of the Dutch economic empire in the seventeenth century and the British economic empire in the eighteenth century; Africa and the trans-Atlantic slave trade before 1800; the continuing significance of Tocqueville's *Democracy in America*; or slavery and emancipation in New England from the colonial era to the Civil War. Other seminars and institutes will explore the history of jazz in American culture and society, content-

based approaches to teaching Italian language using Italian art, German exile culture in California, the advent of printing and its effects on the Protestant Reformation, and an interdisciplinary study onsite in Oaxaca, Mexico, of Zapotec and Mixtec indigenous cultures.

NEH recently conducted a special evaluation of one of our core programs, canvassing approximately 2,000 school teachers who attended Endowment-supported summer seminars and institutes between 1999 and 2002 to assess the quality of these programs and the impact they have had on participants' teaching and professional lives. Responses indicated an extremely high level of satisfaction: More than nine out of ten (94%) teachers judged the overall quality of the seminar or institute they attended to be excellent or very good, and 93% compared seminars and institutes favorably to other (non-NEH) professional development opportunities for teachers.

Another Professional Development category, Faculty Humanities Workshops, funds institutionally and regionally focused study opportunities for school teachers (including charter school teachers and home schooling parents) and college and university faculty. Faculty Humanities Workshops are offered during the school year in or near the communities where teachers live and work. The program complements the longer, residential seminars and institutes that are offered during the summer and whose participants are drawn from across the nation. Awards in this grant category represent considerable breadth and diversity of approaches and subject matter.

In FY 2006, as part of the Endowment-wide *We the People* program, the Professional Development program also awarded "Landmarks of American History and Culture" grants. The goals of this program of one-week summer workshops for K-12 educators are to: 1) train teachers to employ historical sites as the basis for communicating central themes and issues of American history; 2) increase the knowledge and appreciation of these sites; and 3) encourage historical sites to develop greater capacity and scale for professional development programs. The workshops are held at or near presidential residences, colonial-era settlements, major battlefields, and presidential libraries. They are academically rigorous, involve leading scholars, and help participants develop new teaching resources. A recent grant, for example, enabled Boston College to host two one-week workshops in the summer of 2006 for fifty community college faculty on the life and writings of John Adams. Held at sites throughout the Boston area, the workshops were organized around four topics: Adams and Colonial America; Adams as Revolutionary; Adams as a Constitutionalist; and the Legacy of John Adams. In addition to reading David McCullough's *John Adams* and Joseph Ellis's *Passionate Sage*, participants considered works by Adams, such as his *Thoughts on Government* and *Report of a Constitution or Form of Government for the Commonwealth of Massachusetts*. Relevant sites included the Adams National Historical Park; the Massachusetts Historical Society; the Massachusetts Archives; and the Boston Public Library.

The Endowment's efforts to promote the use of digital technologies in the classroom include support for EDSITEment, a nationally recognized gateway for teachers seeking

rich humanities resources on the Internet. Through a partnership with the MarcoPolo Education Foundation, and currently funded by MCI, EDSITEment (<http://edsitement.neh.gov>) now comprises over 150 websites selected by peer review panels for their excellent humanities content, interactive design, and usefulness in the classroom. EDSITEment also includes 360 extensive learning units for grades K-12, comprising rich material for over 1,000 class periods. Currently, EDSITEment averages about 200,000 user sessions per month.

The Teaching and Learning Resources program also makes awards for Humanities Initiatives for Faculty at Presidentially Designated Colleges and Universities. NEH established this program to extend the reach of its grant opportunities to three types of institutions: historically black colleges and universities, Hispanic-serving institutions, and tribal colleges and universities. Humanities Initiatives for Faculty may be used to enhance the humanities content of existing programs, develop new programs, or lay the foundation for more extensive endeavors in the future. Each project must be organized around a core topic or set of themes. For example, an award to Diné College, a tribal college in Tsalie, Arizona, has enabled seven experienced teachers of the Navajo language to review features of Navajo linguistics that apply to the teaching of the language. The University of Puerto Rico, Rio Piedras, a Hispanic-serving university, received a grant to enable faculty to study the multiple representations of the city in twentieth-century Latin American literature, thus strengthening the content of existing first-year humanities courses at the university. A grant to Clark Atlanta University, a historically black university in Atlanta, will incorporate current research on the writer, composer, and Harlem Renaissance figure, James Weldon Johnson, into a new course on his life and works.

C: To preserve and increase the availability of cultural and intellectual resources essential to the American people.

PERFORMANCE INDICATORS:

- 1) Support is provided to sustain national progress toward the preparation of major research tools and reference works of importance to the humanities.
 - FY 2006: Grants were made to *21/22* projects to begin or continue work on the preparation of dictionaries, atlases, encyclopedias, and textbases central to knowledge and understanding of the humanities.
 - FY 2005: Grants were made to *13/13* projects to begin or continue work on the preparation of dictionaries, atlases, encyclopedias, and textbases central to knowledge and understanding of the humanities
 - FY 2004: Grants were made to *18/18* projects to begin or continue work on the preparation of dictionaries, atlases, encyclopedias, and textbases central to knowledge and understanding of the humanities

- FY 2003: Grants were made to 20/20 projects to begin or continue work on the preparation of dictionaries, atlases, encyclopedias, and textbases central to knowledge and understanding of the humanities.

2) Nationally significant brittle books, United States newspapers, documents, photographs, sound recordings, and other historical materials are preserved and made accessible in accordance with NEH's long-range preservation and access plan.

- FY 2006: Five/**Two** awards are supporting the preservation microfilming of 19,650/(2,111) brittle books; 2/2 projects would preserve 1,016,667/(254,167) pages of newspapers on microfilm; and 20/17 projects would preserve and/or provide access to 2,295/(5,664) hours of sound and video collections; 4,245 linear feet/(425) linear feet and (275) cubic feet of archival documents; and 14,950 manuscripts, broadsides, oversize volumes, and other non-print materials/(15,625) feet of film, (9,000) photo images, and (500) documents.
- FY 2005: Three awards are supporting the preservation microfilming of 11,900/(8,925) brittle books; three projects are preserving 754,849/(566,137) pages of newspapers on microfilm and cataloging 1,350/(1,012) U.S. newspaper titles; and seventeen projects are preserving and/or providing access to 1,247/(935) hours of recorded sound collections, 2,993/(2,445) linear feet of archival documents, and 317,800/(238,350) photographs, manuscripts, broadsides, oversize volumes, and other non-print materials.

Six cooperative agreements supported through the new National Digital Newspaper Program, part of the *We the People* program, are digitizing hundreds of thousands of microfilm pages of historic newspapers.

- FY 2004: Six awards supported the preservation microfilming of 19,650/(19,650) brittle books; four projects preserved 1.4/(1.4) million pages of newspapers on microfilm and cataloged 5,600/(5,600) U.S. newspaper titles; and eighteen projects preserved and/or provided access to 19,650/(19,650) hours of recorded sound and video collections, 4,453/(4,453) linear feet of archival documents, and 48,100/(48,100) pamphlets, photographs, and rare books.
- FY 2003: Four awards supported the preservation microfilming of 18,846/**18,846** brittle books; three projects are preserved 866,000/**866,000** pages of newspapers on microfilm and cataloging 4,100/**4,100** U.S. newspaper titles; and nineteen projects preserving and/or providing access to 2,295/**2,295** hours of recorded sound collections, 4,245/**4,245** linear feet of archival documents, and 14,950/**14,950** manuscripts, broadsides, oversize volumes, and other non-print materials.

3) Important material culture collections held by American museums, historical organizations, and other institutions are stabilized and made accessible in accordance with NEH's multi-year preservation plan.

- FY 2006: Projects supported will stabilize or provide documentation for collections at *10/11* institutions, helping to preserve and making available approximately *600,000*/(data not yet available) historically significant objects as well as *3.4*/(data not yet available) million photographs, books, and library collections, and *11 million feet of film*/(data not yet available) linear feet of documents.
- FY 2005: Projects supported are stabilizing or providing documentation for collections at eight institutions, helping to preserve and making available approximately *426,000*/(213,000) historically significant objects as well as *8.3*/(4.2) million photographs and books, and *11*/(5.5) million feet of film.
- FY 2004: Projects supported stabilized or provided documentation for collections at eleven institutions, helping to preserve and making available approximately *195,140/195,140* historically significant objects as well as *3.4/3.4* million photographs, books, and moving image materials.
- FY 2003: Projects supported stabilized or provided documentation for collections at four institutions, helping to preserve and making available approximately *1.3 million/1.3 million* historically significant objects.

4) Up-to-date standards and best practices are developed for the use of digital technologies to preserve and provide access to humanities collections, including the full texts of historical newspapers.

- FY 2006: Support was provided for *4/1* research and development project concerned with standards and procedures.
- FY 2005: Support was provided for five research and development projects concerned with standards and procedures.
- FY 2004: Support was provided for one research and development project concerned with standards and procedures.
- FY 2003: Support was provided for three research and development projects concerned with standards and procedures.

5) Staff at the nation's cultural repositories have opportunities for training in the appropriate procedures for preserving and enhancing access to the collections for which they are responsible.

- FY 2006: Eight awards were made for regional and national education programs that provide training for 3,800/(1,900) people in U.S. museums, libraries, archives, and historical organizations.
- FY 2005: Five awards were made for regional and national education programs that provide training for 3,400/3,400 people in U.S. museums, libraries, archives, and historical organizations.
- FY 2004: Eight awards were made for regional and national education programs that provide training for 3,800/3,800 people in U.S. museums, libraries, archives, and historical organizations.
- FY 2003: Six awards were made for regional and national education programs that are providing training for 3,200/3,200 people in U.S. museums, libraries, archives, and historical organizations.

6) Small and mid-sized libraries, archives, museums, and historical organizations are provided special NEH support for basic preservation activities.

- FY 2006: Projects supported are assisting in preserving collections at 175/164 institutions in all fifty states and two U.S. Territories. Approximately 40/50 percent of the awards went to first-time NEH grantees.
- FY 2005: Projects supported assisted in preserving collections at 114/114 institutions in all fifty states and two U.S. Territories. Approximately 35/44 percent of the awards went to first-time NEH grantees.
- FY 2004: Projects supported assisted in preserving collections at 149/149 institutions in forty-two states and Puerto Rico. Approximately 38/38 percent of the awards went to first-time NEH grantees.
- FY 2003: Owing to a change in deadline, no awards were made this year.

ANALYSIS:

Availability of data. Accurate data on the performance of the preservation, access, research tools, and reference works projects that received NEH support during FY 2006 will be provided by the respective project directors in their regularly scheduled, interim and final progress reports. To the extent partial data on FY 2006 activities are available, they are shown in parenthesis above. We expect to be able to report more complete FY 2006 data in the NEH FY 2007 PAR.

FY 2006 accomplishments. The Endowment supports the creation of a wide array of printed research tools and reference works, including encyclopedias, dictionaries, atlases, databases, and other types of reference materials. Some of these works, such as ancient

language historical dictionaries and descriptive catalogs of manuscripts and rare books, serve primarily the needs of scholars. Other multi-volume works have been widely acclaimed for being broadly useful to students and teachers and for life-long learning in the humanities. Among these are the *Dictionary of American Regional English*, the *American National Biography*, and the *History of Cartography*, a comprehensive account of the evolution of maps and map-making.

Research tools and reference works are now increasingly available in electronic form. NEH funds have supported the development of several online encyclopedias and dictionaries, as well as databases of bibliographical information, digital archives of textual and visual materials, and historical atlases. Some previously printed works, such as *The Middle English Dictionary*, are now available in a digital version, enabling users to search the information in multiple ways and to integrate this reference source with other online resources. As part of a special NEH initiative to assist Afghanistan in preserving and documenting its cultural resources, the Endowment recently made grants to New York University to digitize thousands of pages of Afghan books, serials, and documents published between 1870 and 1930 and currently held in public and private collections in Afghanistan, the United States, and Europe.

NEH support for reference materials has also helped to create tools for the documentation and preservation of endangered languages, including American Indian languages and Cajun French. Of the 6,000 to 7,000 currently spoken languages, it has been estimated that at least 3,000 are threatened with extinction. In 2005, the NEH and the National Science Foundation established a joint, multi-year special initiative, "Documenting Endangered Languages," to focus on linguistic projects that exploit cutting-edge technology. Grants support fieldwork and other activities relevant to recording, documenting, and archiving endangered languages, including the preparation of lexicons, grammars, text samples, and databases.

The Endowment continues to implement the long-range plan for preservation of and access to humanities resources that NEH developed in 1988 and put into place with the assistance of the Congress. A significant part of the nation's cultural legacy is at risk; it has been estimated, for example, that some 25-30 percent of the printed holdings in the nation's research libraries are deteriorating because of the acidity of their paper. Collections of archaeological and ethnographic objects, decorative and fine art, textiles, and historical artifacts also present special preservation challenges because of the complexity of their physical structures and composition. Other materials such as photographs, films, and sound recordings are vulnerable either because of their composition or storage.

Immediately after the extent of the damage caused by Hurricane Katrina became apparent, NEH Chairman Bruce Cole announced that the Endowment would make Emergency Grants of up to \$30,000 for salvage and recovery efforts on the part of cultural institutions in the disaster areas. Among the forty institutions that have received NEH Emergency Grants are: the New Orleans Notarial Archives, to treat damaged records that date from 1734; the Jefferson Davis Home and Presidential Library in

Beauvoir, Mississippi, to protect and relocate historical documents and artifacts; Tougaloo College in Mississippi, to stabilize the library's historic holdings relating to the Civil Rights Movement; and the Old Capitol Museum of Mississippi History in Jackson, to support the assessment and conservation of artifacts damaged by the storm.

The Endowment continues to help preserve the content of historically important American newspapers through grants made by the United States Newspaper Program. NEH support enables organizations and institutions in individual states to locate, catalog, and microfilm their newspaper holdings. A centralized bibliographic record of all newspaper titles published in America since 1690 will eventually be created, and copies will be made of those newspapers that are the most historically important. All fifty states, the District of Columbia and many of the U.S. territories have participated in newspaper planning and implementation projects supported through NEH grants. To date, 43 states, the Virgin Islands, Puerto Rico, and eight national repositories have concluded their projects. When all currently funded projects are completed, records for more than 280,000 unique newspaper titles will be available in a national database accessible through computer terminals at more than 53,000 institutions in the U. S. and abroad. In addition, 70.2 million newspaper pages will have been microfilmed that might otherwise have been lost to future generations.

With the advent of digital technology, there is now a means of providing full text searching of newspaper content. As part of the Endowment's *We the People* program, a major effort is being made to digitize microfilmed pages of historically significant newspapers, which could be searched on a national database freely accessible via the Internet. In FY 2005, NEH and the Library of Congress established a partnership to create the National Digital Newspaper Program. Over a period of approximately 20 years, the Endowment will provide grants to institutions and organizations in each state of the nation to digitize titles published between 1836 and 1922 and to prepare fully searchable files that the Library of Congress would permanently maintain on the World Wide Web.

The Endowment also encourages the development of new technical procedures for creating reference tools. For example, a recent research and development grant to the University of North Carolina, Chapel Hill, will involve the application of Geographic Information System technology to the NEH-funded Atlas of the Greek and Roman World and the creation of an interactive Internet-based spatial and historical reference tool that will make possible ongoing additions to place names, geographic locations, and bibliographic citations.

A recent national survey has found that nearly one-third of cultural institutions in the United States urgently need additional storage facilities or furniture. The Endowment provides grants to help museums, libraries, archives, and historical organizations preserve their humanities collections through support for improved housing and storage, environmental conditions, security, lighting, and fire protection. Since FY 1990, NEH awards have stabilized and documented collections comprising 36 million archaeological, ethnographic, and historical objects as well as 14.7 million books, photographs, and

documents, 17 million feet of film, 8,000 analog and video recordings, 12,000 linear feet of manuscripts, and 9,200 linear feet of archival materials.

The Endowment seeks to integrate emergency management into all aspects of a collecting institution's operations by supporting preservation education programs and the work of the regional preservation field services to provide the training needed to plan effectively for disaster preparedness and response. Since the events of 9/11, it has become clear that workable institutional plans for disaster preparedness and response are of even greater importance than before. Shortly after the attacks, NEH funded a survey of the damage to cultural resources that took place on that day, and the readiness of institutions in Lower Manhattan to cope with this kind of disaster. Only 60 percent of the responding institutions had a current catalog or inventory of their collections. Only 41 percent of those institutions with current catalogs that were less than five years old described them as complete; 53 percent kept no off-site record of their holdings. The devastating hurricanes of 2005 in the Gulf of Mexico also reinforced the need for workable institutional plans for disaster preparedness and response. NEH currently supports six regional services to help ensure that smaller cultural institutions across the country receive the kind of advice and knowledge they require to preserve their collections. NEH also supports the nation's four academic programs in conservation, and recent grant to the American Institute for Conservation, the membership organization supporting conservation professionals, supports advanced workshops on preservation topics across the country.

Smaller cultural repositories constitute the large majority of collecting institutions in the United States. These organizations often lack the resources to address the preservation needs of their collections. The Endowment's Preservation Assistance Grants provide small and mid-sized libraries, archives, museums, and historical organizations with grants of up to \$5,000. The funds support on-site consultation by a preservation professional, enable staff to attend preservation training workshops or other events, and help purchase preservation supplies and equipment.

D: To provide opportunities for Americans to engage in lifelong learning in the humanities.

PERFORMANCE INDICATORS:

1) Substantive media presentations, exhibitions, reading and discussion programs, and other public projects in the humanities are widely available.

- **FY 2006:** *Twenty-one/twenty-six* television/radio projects supported will produce *44/(69)* broadcast hours and draw a cumulative audience of approximately *84/(98)* million people.

- *Twenty-eight*/**thirty-four** exhibitions supported will be presented at *80*/(99) museums, historical organizations, and other sites across the country and attract over *10*/(7) million visitors.
- Twelve/**Sixteen** library reading and discussion projects and special projects supported will result in more than *1,100*/(1,150) programs at approximately *240*/(260) sites involving more than *3*/(3) million people.
- FY 2005: Twenty-one television/radio projects supported are producing *44*/(14) broadcast hours and drawing a cumulative audience of approximately *84*/(84) million people.

Twenty-nine exhibitions supported are being presented at *84*/(29) museums, historical organizations, and other sites across the country and attracting an estimated *10*/(10) million visitors.

Thirteen library reading and discussion projects and special projects supported are resulting in more than *1,125*/(548) programs at approximately *250*/(137) sites and drawing an estimated *3*/(3) million people.

- FY 2004: Thirty-one television/radio projects supported are producing *69*/(69) broadcast hours that will draw a cumulative audience of approximately *130*/(130) million people.

Thirty-five exhibitions supported are being presented at *101*/(50) museums, historical organizations, and other sites across the country and attracting an estimated *10.5*/(10.5) million visitors.

Twelve library reading and discussion projects and special projects supported are resulting in more than *1,000*/(736) programs at approximately *240*/(184) sites and drawing an estimated *3*/(3) million people.

- FY 2003: Twenty-nine television/radio projects supported produced *71*/(107) broadcast hours and drew a cumulative audience of approximately *130*/(130) million people.

Twenty-four exhibitions supported were presented at *70*/(65) museums, historical organizations, and other sites across the country and attracted an estimated *10*/(10) million visitors.

Eleven library reading and discussion projects and special projects supported created more than *1,100*/(753) programs at approximately *260*/(178) sites and drew an estimated *3*/(2) million people.

2) By consulting with outside experts, smaller, especially rural, institutions and less experienced filmmakers and radio producers build their capacity to implement projects.

- FY 2006: *Thirty-five*/**twenty-nine** Consultation grants will involve new scholars and humanities professionals in high quality programs for adult audiences.
- FY 2005: **Forty-one** Consultation grants will involved new scholars and humanities professionals in high quality programs for adult audiences.
- FY 2004: **Thirty-six** Consultation grants involved new scholars and humanities professionals in high quality programs for adult audiences.
- FY 2003: **Forty-nine** Consultation grants involved new scholars and humanities professionals in high quality programs for adult audiences.

3) Collaborations among cultural institutions to develop public humanities programs are encouraged.

- FY 2006: *Eighty*/**one hundred thirteen** grants to small and mid-sized libraries will reach tribal communities, rural, and inner-city audiences.
- FY 2005: **Forty** grants to small and mid-sized libraries reached tribal communities, rural, and inner-city audiences.
- FY 2004: **Sixty** grants to small and mid-sized libraries reached tribal communities, rural, and inner-city audiences.
- FY 2003: **One hundred five** grants to small and mid-sized libraries reached tribal communities, rural, and inner-city audiences.

ANALYSIS:

Availability of data. By awarding project development funding for such varied purposes as consultation, planning, scripting, and production, the Endowment helps ensure public access to enriching humanities programs on television and in museums, libraries, and other cultural institutions. The time that elapses between an initial NEH project grant and the appearance of a completed film, exhibition, or library program may extend from six months to many years. Most of the public programs that received NEH support during FY 2006 are currently in development, and data for the associated performance indicators are not available, even in partial form. However, a more complete picture of the results of these projects will emerge cumulatively in subsequent editions of the NEH PAR. Increasingly, the Endowment's Grants Management System (GMS) database will

facilitate the aggregation of data about the products, such as films and exhibitions that result from activities supported by specific NEH grants.

FY 2006 accomplishments. The Endowment supports the efforts of outstanding filmmakers, radio producers, museum curators, and other professionals to engage millions of Americans in the study and interpretation of important humanities works, ideas, and events. Nationally broadcast radio and television programs, museum and library exhibitions that travel broadly throughout the United States, community-based reading and discussion programs, and substantive digital projects for the public are among the accessible and engaging formats that are supported.

Several recent television documentaries produced with Endowment support have garnered prestigious national awards. For example, two NEH-supported films received Emmy Awards in 2006: *The Fight* and *Broadway: The American Musical*. In 2005 and 2006 three radio programs—*Leonard Bernstein: An American Life*, *Studio 360: American Icons Program on Moby Dick*, and *Hidden Kitchens*—all won coveted George Foster Peabody awards for excellence in broadcasting, as did the television film, *Tupperware*. Recent broadcasts include *John and Abigail Adams*, which uses the voluminous correspondence between John and Abigail to capture the Presidential couple as real people living in extraordinary times. *Do You Speak American?*, examined the history and continuing development of American English. Accompanying the broadcast were digital enhancements, including a database with historical documents created by the country's founders, documenting their thoughts about American English and an "official" language, online discussions about American slang and dialects, and audio clips of Civil War veterans and ex-slaves.

The Endowment has also provided partial support for the first two seasons of one of the few history series offered on television to young people, *The Time Warp Trio*. Broadcast as part of NBC's *Discovery Kids* programming as well as on the Discovery Kids satellite channel, the animated series for 6- to 12-year olds transports viewers on journeys in time and introduces them to important events of the past. In the first season, kids learned about Ancient Rome in 120 A.D., the Japanese Shogunate in 1618, the Battle of Waterloo in 1815, and the Chisholm Trail in the Old West of 1868. The producing station, WGBH in Boston, worked with historians, teachers, and curriculum experts to create the series and the accompanying website.

At any time, hundreds of NEH-sponsored exhibitions are on view at large and small museums and historical sites throughout the country. Now on tour, for example, is *Daughter of Re: Hatshepsut, King of Egypt*, the first major exhibition to focus on the female Pharaoh Hatshepsut and her reign during what is considered the Golden Age of ancient Egypt. Featuring 300 artifacts from international collections, never before assembled in the modern era, the exhibition is traveling to the Fine Arts Museum of San Francisco, the Metropolitan Museum of Art in New York, and the Kimbell Art Museum in Fort Worth, Texas. Other exhibitions currently touring the country include shows on the prehistoric earthworks of the Ohio River Valley, American visions of liberty and freedom, the marvels of Machu Picchu, the people and land of the Northern Forest in

New England and New York, and worldwide interpretations of Carnival. A recent “Interpreting America’s Historic Places” grant, as part of the agency’s *We the People* program, will enable the National Trust for Historic Preservation to implement an exhibition and guided tours at the cottage that Abraham Lincoln used as a seasonal retreat during the Civil War. In preparation for the bicentennial of Lincoln’s birth in 2009, this project will take place within the newly opened cottage, the centerpiece of the President Lincoln and Soldiers’ Home National Monument. Also as part of *We the People*, “Family and Youth Programs in American History” awards encourage projects that engage young people and intergenerational audiences at museums, libraries, historical societies and sites, parks, and other public places. Notable projects that have received recent awards include a permanent exhibition on the diverse cultures of Brooklyn, New York, for children ages four to eleven.

The Endowment recently launched *NEH on the Road*, a special program called that sends intellectually engaging, scaled-down versions of four major NEH-funded exhibitions to small museums around the country. The exhibitions are reaching 25 communities in FY 2006. For example, *Heroes of the Sky: Adventures in Early Flight, 1903-1939*, which commemorates the 100th anniversary of flight through the stories of some of the early pilots and inventors, was shown at such sites as the Hill Aerospace Museum at Hill Air Force Base, Utah, and the Mid-America Air Museum in Liberal, Kansas.

Libraries offer a natural setting for scholars and the general public to come together for reading and discussion. NEH encourages collaboration between community libraries and museums, school systems, parent-teacher organizations, broadcast and cable television stations, and literacy coalitions. Endowment grants for libraries support reading and film discussion series, traveling exhibitions, lecture series, public conferences, and call-in radio programs. For example, *Reading Stories, Transforming Lives: Compartir cuentos y enriquecer la vida*, has been taking place in 24 libraries in 14 states over the past two years. These reading and discussion programs in English and Spanish engage participants in towns and cities, such as Lawrenceville, Georgia; Las Cruces, New Mexico; and Naples, Florida, in the discussion and analysis of short stories and poetry by such writers as Langston Hughes and Carson McCullers.

The Endowment’s *We the People Bookshelf* program provides a set of featured books to school and public libraries throughout the country for use in programs appropriately designed for students and communities. This project, undertaken with the collaboration of the American Library Association, encourages young people to read and understand carefully chosen books that explore themes in American history. The current theme of “Becoming American” has proved particularly popular among school and public libraries, and in 2006 the Endowment awarded a set of books on this theme to 2,000 of these community institutions. In addition, the Libraries program and the *We the People* program have cooperated on an award to The Library of America to publish two textually authoritative, moderately priced volumes of *Early American Writing*, one of 17th- and 18th-century poetry and the other of the writings of Captain John Smith and other early exploration narratives.

Two NEH grant programs help smaller, less-experienced organizations bring humanities learning to the public. Consultation Grants enable institutions to enlist the expertise of scholars at a very early stage of a project. Most Consultation Grants are awarded to institutions that have not previously received grants from the Public Programs division and/or from the NEH. Another grant category, Small Grants to Libraries, enables individual libraries to take part in exemplary programs, such as exhibitions on important topics in the humanities, circulated by national organizations and major institutions. For example, *Alexander Hamilton: The Man Who Made Modern America* is a panel exhibition, accompanied by a website, catalog, and public programs, interpreting Hamilton's role in the creation of American government and culture. The exhibition draws primarily on outstanding collections held at the New-York Historical Society and the Gilder Lehrman Institute and is being circulated to 40 libraries. During 2006, an exhibition on Abraham Lincoln and the emancipation of slaves and another on the life and times of Elizabeth I of England have been touring to America's libraries.

E: To create new program initiatives that respond to needs and opportunities in American society.

PERFORMANCE INDICATORS:

1) New initiatives and programs that address important concerns and opportunities in the humanities are established.

- FY 2006: Significant funding was provided through *We the People* to support a variety of new programmatic initiatives: 1) *We the People Bookshelf* grants for up to 2,000 public and school libraries; 2) "Landmarks of American History and Culture" workshops for K-12 teachers and community college faculty; 3) public programs supported through the new "America's Historic Places" and "Family and Youth Programs in American History" categories; 4) additional awards through the NEH/Library of Congress *National Digital Newspaper Program*; and 5) special NEH Challenge Grants for educational and cultural institutions working to advance knowledge of the founding principles of the United States. Additional humanities projects supported by NEH core programs received *We the People* grants. The state humanities councils also received significant funding to support projects and programs related to the initiative.

In FY 2006, NEH launched a major, multi-year initiative—the Digital Humanities Initiative—that will encourage and support projects that utilize or study the impact of digital technology on research, education, preservation, and public programming in the humanities. Through this initiative, NEH will foster the growth of digital humanities and support a wide variety of projects including, for example, those that deploy technologies and methods to enhance our understanding of a topic or issue in the humanities; those that study the impact of digital technology on the humanities—exploring the ways

technology changes how we read, write, think, and learn; and those that digitize important materials, thereby increasing the public's ability to search and access humanities information. The first grants under the initiative will be awarded in FY 2007.

- FY 2005: Significant funding was provided through *We the People* to support a variety of new programmatic initiatives: 1) an “Idea of America” essay contest for eleventh-grade students; 2) the third “Heroes of History” lecture; 3) *We the People Bookshelf* grants for up to 1,000 public and school libraries; 4) “Landmarks of American History” for K-12 teachers and community college faculty; 5) public programs supported through the new “America’s Historic Places” and “Family and Youth Programs in American History” categories; 6) awards in the NEH/Library of Congress *National Digital Newspaper Program*; and 7) special NEH Challenge Grants for educational and cultural institutions working to advance knowledge of the founding principles of the United States. Additional humanities projects supported by NEH core programs received *We the People* grants. The state humanities councils also received significant funding to support projects and programs related to the initiative.
 - FY 2004: The *We the People* initiative provided significant funding to support: 1) an “Idea of America” essay contest for eleventh-grade students; 2) the second “Heroes of History” lecture; 3) *We the People Bookshelf* grants for up to 1,000 public and school libraries; 4) seventeen “Landmarks of American History” workshops for K-12 teachers; and 5) six *We the People* Challenge Grants for educational and cultural institutions working to advance knowledge of the founding principles of the United States. Additional humanities projects supported by NEH core programs received *We the People* grants. The state humanities councils received significant funding to support projects and programs related to the initiative.
 - FY 2003: NEH launched a special initiative, *We the People*, to encourage new project proposals that advance our knowledge of the events, ideas, and principles that define the American nation. Six eleventh-grade students were selected as winners of the first “Idea of America” essay contest, distinguished historian Robert V. Remini delivered the first “Heroes of History” lecture, the *We the People Bookshelf* program was launched, and 68 humanities projects supported by NEH core programs were selected to receive *We the People* grants.
- 2) Agency-wide initiatives are developed in selected humanities areas.
- FY 2006: “Rediscovering Afghanistan,” promoted research, education, and public programs about Afghanistan and encouraged U.S. institutions to assist that country in its effort to preserve and document its cultural resources.

Additional awards were made through the NEH/NSF “Documenting Endangered Languages” and “Recovering Iraq’s Past” initiatives.

- FY 2005: Initial awards were made in a joint NEH/NSF “Documenting Endangered Languages” special initiative, and additional awards were made through the NEH “Recovering Iraq’s Past” special initiative in support of the Administration’s government-wide initiative. In conjunction with an agency-wide initiative to mark the bicentennial of the Lewis and Clark expedition, the Endowment awarded implementation grants to projects in states along the cross-country route taken by the explorers.
- FY 2004: Eight awards were made through “Recovering Iraq’s Past,” an NEH special initiative in support of the Administration’s government-wide effort to support the preservation and documentation of cultural resources in Iraq’s archives, libraries, and museums. In conjunction with an agency-wide initiative to mark the bicentennial of the Lewis and Clark expedition, the Endowment awarded implementation grants to projects in states along the cross-country route taken by the explorers.
- FY 2003: In conjunction with an agency-wide initiative to mark the bicentennial of the Lewis and Clark expedition, the Public Programs division awarded implementation grants to projects in states along the cross-country route taken by the explorers.

ANALYSIS:

FY 2006 accomplishments. On Constitution Day 2002, the Administration and the National Endowment for the Humanities announced the creation of a major program, *We the People*, designed to encourage and enhance the teaching, study, and understanding of American history and culture.

The program consists of special projects NEH is sponsoring directly and other grants made through the agency's program divisions. To date, 989 projects throughout the agency’s programs have received funds appropriated for *We the People*. Notable projects include editions of the papers of Eleanor Roosevelt, James Madison, and the Documentary History of the Ratification of the Constitution and the Bill of Rights; television documentaries on the War of 1812, Jamestown, and Walt Whitman; seminars and institutes for teachers on the Lewis and Clark Expedition, the origins of the U.S. Civil War, and African-American literature, culture, and folklore; public programs at 100 community libraries across the nation on “Abraham Lincoln’s Journey to Emancipation”; and Challenge Grants to leverage contributions for institution strengthening their programs on history and culture, such as a recent award to Duke University to endow a visiting professorship, undergraduate lectures, and an annual conference in American values and institutions.

In FY 2006, notable *We the People* highlights and accomplishments included the following:

- The Endowment undertook a fourth year of partnership with the American Library Association, awarding sets of classic works of literature to thousands of public and school libraries as part of its *We the People Bookshelf* program. In addition to the books, NEH provides materials to help with publicity and the organization of public programs tied to the readings. For the 2006 program on “Becoming American,” NEH received a generous gift from the McCormick Tribune Foundation and was able to double the number of awards.
- Enrichment workshops for K-12 teachers and community college faculty were supported at important historical sites around the nation. “Landmarks of American History and Culture” workshops have explored such topics as “James Madison and Constitutional Citizenship,” “America’s Industrial Revolution,” “Congress and the Capitol,” and “The Lincoln Home: Society, and Politics in Antebellum America.” Since more than half of the nation’s postsecondary students receive their first, and often only, contact with college courses in the humanities at community colleges, NEH has expanded the program to include community college faculty. Projects supported have included such community college workshops as “The Columbia River and the Making of the American West,” “Encountering John Adams,” and “The Alamo.”
- New programs have been established to expand opportunities for Americans to engage in lifelong learning in the humanities: “Interpreting America’s Historic Places” supports projects that use one or more historic sites to address themes and issues central to American history and culture; and “Family and Youth Programs in American History” supports projects designed to encourage intergenerational learning about significant topics in U.S. history and culture. To date, the Endowment has awarded 39 projects through these programs, including the “The Civil War and the Homefront in the Mid-Atlantic Border Region,” “Immigration, Public Health, and the Ellis Island Hospitals,” and a family program at the Brooklyn Children’s Museum.
- NEH and the Library of Congress continued to implement a long-term partnership to launch a new National Digital Newspaper Program that will convert microfilm of U.S. newspapers from 1836 to 1922 into fully searchable digital files and mount the files on the Internet. The Library of Congress provides technical support and mounts and maintains the database of digitized files on its website.
- The NEH Challenge Grants program again offered special awards for educational and cultural institutions to strengthen their programs that advance knowledge of the founding principles and enduring themes of American democracy. Grantees have included the Montpelier Foundation, George Washington University, the Museum of Fine Arts in Boston, and The Richards Civil War Era Center at Pennsylvania State University, whose Challenge Grant is endowing faculty and postdoctoral

fellowships, summer institutes for school teachers and emerging scholars, conferences, and programs in a center devoted to the study of the Civil War era.

- To date, 989 projects throughout the agency's core programs have received funds appropriated for *We the People*. Notable projects include editions of the papers of Eleanor Roosevelt, James Madison, and the Documentary History of the Ratification of the Constitution and the Bill of Rights; television documentaries on the War of 1812, Jamestown, and Walt Whitman; seminars and institutes for teachers on the Lewis and Clark Expedition, the origins of the U.S. Civil War, and African-American literature, culture, and folklore; and public programs at 100 community libraries across the nation on "Abraham Lincoln's Journey to Emancipation."
- The Endowment has provided a significant portion of funds appropriated for *We the People* each year to the state councils to help them develop local and statewide projects and programs on American history and culture. These projects include expanded Chautauqua programs; reading and discussion programs on important events and principles in American history and culture, such as the history of voting, Brown vs. Board of Education, and westward expansion; and expanded teacher institutes in a number of states that enable humanities teachers to be more effective instructors of important topics in American history and culture. The state humanities councils are helping to ensure that *We the People* reaches citizens in every state.

Other agency-wide initiatives were also supported in FY 2006.

- The Endowment launched "Rediscovering Afghanistan" to promote research, education, and public programs about Afghanistan and to encourage United States institutions to assist Afghanistan in efforts to preserve and document its cultural resources. Two projects were supported under this initiative in FY 2006: the American Institute of Afghanistan was awarded \$118,012 for a project to preserve and catalogue 2,600 hours of Radio Afghanistan analog music tapes recorded between 1960 and 1980; and New York University received \$302,774 to digitize 25,000 pages of books, documents, and serials published 1870-1930 and held in repositories in Kabul.
- The Endowment joined with the National Science Foundation to support an agency-wide initiative on "Documenting Endangered Languages." Fifteen grants totaling \$1.2 million were awarded for projects that create, enhance, and deepen our knowledge of the estimated 3,000 currently spoken languages that are threatened with extinction in the near future.
- NEH participated in a government-wide effort to assist in rebuilding the cultural heritage infrastructure of Iraq. The Endowment's "Recovering Iraq's Past" initiative supported humanities projects to preserve and document cultural resources in Iraq's archives, libraries, and museums. In FY 2006, five awards totaling \$483,596 were made to preserve and document Iraq's cultural resources and to develop education

and training opportunities for Iraq's librarians, archivists, and preservation specialists.

F: To strengthen the institutional base of the humanities.

PERFORMANCE INDICATORS:

1) Support is provided for the efforts of outstanding cultural and educational institutions to increase nonfederal contributions for their humanities resources and activities.

- FY 2006: By FY 2009, NEH Challenge Grants awarded in FY 2006 will generate nearly \$30/(\$11) million in nonfederal donations to recipient institutions in support of their humanities activities.
- FY 2005: By FY 2008, NEH Challenge Grants awarded in FY 2005 will generate nearly \$38/(\$47) million in nonfederal donations to recipient institutions in support of their humanities activities.
- FY 2004: By FY 2007, NEH Challenge Grants awarded in FY 2004 will generate nearly \$35/(\$27) million in nonfederal donations to recipient institutions in support of their humanities activities.
- FY 2003: By FY 2006, NEH Challenge Grants awarded in FY 2003 have generated nearly \$30/(\$23) million in nonfederal donations to recipient institutions in support of their humanities activities.

2) Humanities institutions are encouraged to engage in long-range planning.

- FY 2006: Most institutions receiving NEH Challenge Grants will enhance their long-term planning in the humanities.
- FY 2005: Most institutions receiving NEH Challenge Grants are enhancing their long-term planning in the humanities.
- FY 2004: Most institutions receiving NEH Challenge Grants are enhancing their long-term planning in the humanities.
- FY 2003: Most institutions receiving NEH Challenge Grants are enhancing their long-term planning in the humanities.

3) Institutions use the leverage of an NEH Challenge Grant to enhance their humanities resources and activities.

- FY 2006: As a result of their fund-raising efforts, most FY 2006 Challenge grantees will undertake new programs and strengthen existing programs in the humanities.
- FY 2005: As a result of their fund-raising efforts, most FY 2005 Challenge grantees are undertaking new programs and strengthening existing programs in the humanities.
- FY 2004: As a result of their fund-raising efforts, most FY 2004 Challenge grantees are undertaking new programs and strengthening existing programs in the humanities.
- FY 2003: As a result of their fund-raising efforts, most FY 2003 Challenge grantees already anticipate undertaking new programs and strengthen existing programs in the humanities.

ANALYSIS:

Availability of data. Recipients of an NEH Challenge Grant are typically “challenged” to raise either \$3 or \$4 in nonfederal contributions for each dollar of the Endowment’s offer of support. By FY 2009, NEH Challenge Grants awarded in FY 2006 will have generated nearly \$30 million in nonfederal donations to recipient institutions in support of their humanities activities. Challenge Grants are designed to encourage humanities organizations to undertake a capital fund-raising campaign. Because such campaigns may require years to reach their goal, the sums above represent a snapshot of current progress toward the recipients’ multi-year fund-raising goals.

FY 2006 accomplishments. The Endowment, through its Challenge Grants program, is helping local, state, and national institutions secure their humanities resources and activities for the long term. Crucial to achieving this goal is the “multiplier effect”: First-time recipients of a challenge grant must match every federal dollar with three nonfederal dollars, and recipients of subsequent awards must raise four nonfederal dollars for every federal dollar. In fact, many grantees raise even more than the required amount.

Both the NEH challenge funds and the matching nonfederal funds can be used for a variety of long-term institutional purposes. Challenge grants can augment or establish endowments that support basic humanities needs such as staff and programming. The money also can be used to renovate or construct facilities, purchase capital equipment and upgrade technology, add to library holdings, and preserve existing collections. A wide array of nonprofit organizations annually take up the NEH “challenge,” including museums, tribal centers, libraries, colleges and universities, scholarly research organizations, state humanities councils, public radio and television stations, and historical societies and sites.

As part of its *We the People* program, the Endowment is inviting proposals in a special competition for challenge grants to strengthen programs that enhance our understanding of the nation's founding events, democratic institutions, and cultural heritage. In FY 2005 and 2006, through this initiative, the National Constitution Center (NCC) has received offers totaling \$1,500,000 (which will match \$4,500,000 in nonfederal donations) to construct a new gallery for, and to endow ongoing expenses of, a program of temporary educational exhibits illustrating various aspects of the U.S. Constitution. On July 4, 2003 the NCC museum opened in Philadelphia's Independence National Historic Park just two blocks from Independence Hall. The museum addresses the history and contemporary relevance of the Constitution and the principles of constitutional democracy.

Grants awarded in the regular Challenge program, as well as in the special competition, often exemplify the goals of *We the People*. NEH recently offered a challenge grant of \$500,000, to match \$1,500,000 in nonfederal gifts, to the Liberty Memorial Association of Kansas City, Missouri. Opened in 1926, its original mission was to memorialize those who fought in the First World War. As the centennial of World War I approaches in 2014, the Liberty Memorial Association has begun to focus on educating audiences, especially school children grades 5-12, about the historical context of World War I and its relevance for understanding today's events. The challenge grant will support an endowment for an historian/education director, for educational programming, and for related acquisitions—vital support for the institution's shift from being a static memorial to becoming a dynamic educational resource.

NEH Challenge Grants are helping to strengthen humanities teaching and learning. For example, Swarthmore College received a \$600,000 challenge grant (to match \$2,400,000 in nonfederal funds) to endow teaching positions in Modern Standard Arabic. The college currently has substantial enrollments in Islamic and Middle Eastern Studies, and it seeks to address a national need by offering instruction in first- and second-year Arabic in a tri-college consortium with Haverford College and Bryn Mawr College. The consortium is working to integrate language and cultural study and to encourage participation by its students in overseas residential programs. The new endowment will support a full-time faculty position at Swarthmore, a part-time faculty position to be shared with Haverford and Bryn Mawr, and Arabic language drill instructors.

NEH Challenge Grants are facilitating humanities research and scholarship. For example, NEH awarded a grant of \$500,000 (to match \$2 million in nonfederal funds) to the Wisconsin Historical Society to endow the preservation of its important collections. The Society's North American history collections, which include four million library items and 130,000 cubic feet of archival materials, document the development of communities, nations, and social groups from the first contact between European and Native American cultures to the present. The endowment created will provide continuous support for protecting these valuable collections and making them accessible not only for research but also for classroom use, exhibits, and public programs.

NEH Challenge Grants are preserving and increasing access to cultural resources. The Nebraska State Historical Society, for example, received a challenge offer of \$550,000, to match \$1,650,000 in nonfederal donations, to endow a paintings conservator and related conservation expenses at the Gerald R. Ford Conservation Center's (GRFCC) laboratory. Established in 1995, GRFCC is one of twelve regional conservation centers in the United States and one of only three west of the Mississippi River. The center offers workshops, lectures, and educational programs on conservation, and the staff teaches preventive conservation to students in graduate-level museum studies programs. Another example is the challenge grant (\$40,000, to match \$160,000) to the Linguistic Society of America, funded in conjunction with the National Science Foundation, that will support an ongoing series of workshops for linguists working to document and record endangered indigenous languages. Besides teaching technical skills, the workshops address the cultural and ethical complications of dealing with native speakers of languages that invariably reflect deeply held religious and cultural values.

Challenge Grants are providing opportunities for lifelong learning in the humanities. Throughout our nation's history, libraries have played a crucial role as repositories of knowledge and as resources for learning by members of the public. The Redwood Library and Athenaeum of Newport, Rhode Island, for example, was chartered in 1747 and is our nation's oldest lending library. The Redwood's early catalogue illustrates the intellectual climate of the American colonies—what patrons wanted to read as well as what they thought they should read. NEH recently offered a \$500,000 challenge grant (to match \$1.5 million in nonfederal gifts) to the Redwood for restoration of its historic 1750 building. The restoration and renovation will enhance the library's capacity for public programming and outreach to its community, as well as preserving a building that is itself of historic importance.

The Endowment's enabling legislation calls for it to encourage “administrative and management improvements . . . particularly in the field of long-range financial planning.” The Challenge Grants program fulfills this mission by requiring applicants to demonstrate how their planning—for fund raising, program development, and resource allocation—will sustain their endeavors well into the future. The benefits are clearly evident in the results of recently completed grants. For example, the Dubuque County Historical Society in Iowa completed its challenge grant by raising over \$2,000,000 in nonfederal gifts to receive \$500,000 in federal funds. Through its River Discovery Center, the society's National Mississippi River Museum & Aquarium has become a significant force in humanities programming in Iowa and the ten-state Mississippi River valley region. The challenge grant endowed a staff position in educational programming at the River Discovery Center; it was also used to construct the main Discovery Center building that allows visitors to explore the Mississippi River's past, present, and future.

G: To maintain and strengthen partnerships with the state humanities councils.

PERFORMANCE INDICATORS:

1) Support is provided to the councils to encourage locally initiated, substantive humanities programs for the people in each state and territory.

- FY 2006: Support for the programs and operations of fifty-six state humanities councils will make possible high quality state and local humanities projects throughout the nation, including 14,479/(14,527) reading and discussion programs, 2,292/(2,292) exhibitions, 4,477/(4,359) literacy programs, 5,448/(5,448) speakers bureau presentations, 2,070/(2,070) teacher institutes and workshops, 4,880/(4,880) conferences and symposia, 2,222/(2,222) Chautauqua events, 7,557/(7,509) media program events, 263/(263) technology projects, 229/(228) preservation projects and 5,285/(5,285) local history projects.
- FY 2005: Support for the programs and operations of 56 state humanities councils made possible high quality state and local humanities projects throughout the nation, including 12,830/(14,351) reading and discussion programs, 3,852/(2,678) exhibitions, 5,020/(4,686) literacy programs, 5,416/(5,609) speakers bureau presentations, 4,472/(2,077) teacher institutes and workshops, 6,018/(4,679) conferences and symposia, 3,590/(2,391) Chautauqua events, 8,833/(9,504) media program events, 317/(279) technology projects, 930/(258) preservation projects and 5,940/(4,041) local history projects.
- FY 2004: Support for the programs and operations of 56 state humanities councils made possible high quality state and local humanities projects throughout the nation, including 12,665/**12,665** reading and discussion programs, 3,803/**3,803** exhibitions, 4,956/**4,956** literacy programs, 5,346/**5,346** speakers bureau presentations, 4,415/**4,415** teacher institutes and workshops, 5,941/**5,941** conferences and symposia, 3,544/**3,544** Chautauqua events, 8,720/**8,720** media program events, 313/**313** technology projects, 918/**918** preservation projects and 5,864/**5,684** local history projects.
- FY 2003: Support for the programs and operations of fifty-six state humanities councils made possible high quality state and local humanities projects throughout the nation, including 13,603/**13,585** reading and discussion programs, 3,289/**3,430** exhibitions, 10,353/**10,389** literacy programs, 6,490/**6,503** speakers bureau presentations, 2,321/**2,341** teacher institutes and workshops, 5,243/**5,285** conferences and symposia, 6,957/**6,957** Chautauqua events, 11,200/**11,911** media program events, 326/**328** technology projects and 5,816/**5,878** preservation and local history projects.

2) Support is provided to the councils to conduct high quality humanities programs in each of the states.

- FY 2006: NEH encouraged councils to support a number of excellent council-conducted humanities programs. State humanities councils would maintain their regrant programs, funding approximately the same number of locally initiated projects than they funded in the previous year.
- FY 2005: NEH encouraged councils to support a number of excellent council-conducted humanities programs. State humanities councils maintained their regrant budgets, funding approximately the same number of locally initiated projects than they funded in the previous year.
- FY 2004: NEH encouraged councils to support a number of excellent council-conducted humanities programs. State humanities councils maintained their regrant budgets, funding approximately the same number of locally initiated projects they funded in the previous year.
- FY 2003: NEH encouraged councils to support a number of excellent council-conducted humanities programs. State humanities councils maintained their regrant budgets, funding approximately the same number of locally initiated projects they funded in the previous year.

3) The agency's partnership with the state councils is strengthened through more effective use of digital technology, including the development of a web-based database for reporting information to NEH.

- FY 2006: NEH maintained the web-based compliance plan database, and provided increased access to the data by state councils.
- FY 2005: NEH revised and updated the web-based compliance plan database and provided increased access to the data by state councils.
- FY 2004: NEH updated the web-based compliance plan database and increased access to the data by state councils.
- FY 2003: NEH updated the web-based compliance plan database and increased access to the data by state councils.

ANALYSIS:

Availability of data. The above performance data about programmatic activities undertaken by the state humanities councils as a result of funding awarded by the Endowment in FY 2006 are preliminary. Final data will be provided by the councils via a newly instituted electronic submission system.

FY 2006 accomplishments. The NEH Federal/State Partnership is the collaborative effort of the Endowment and fifty-six state humanities councils. By promoting

knowledge of history, thought, and culture, the councils help the Endowment realize its strategic goal of increasing public awareness of, access to, and participation in the humanities. The Partnership makes humanities education and life-long learning readily available at the local level, tailored to local interests and needs.

State humanities councils are nonprofit 501(c) (3) organizations governed by volunteer boards of directors. They operate in each of the fifty states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, and Amerika Samoa. The councils were established to fulfill the requirement in the National Foundation on the Arts and the Humanities Act that the Endowment provide support for humanities programs “in each of the several states.”

State councils receive money each year from the NEH appropriation according to a statutory formula. In accordance with the federal mandate, every NEH dollar that a council receives is matched by local contributions of cash, goods, or services. In recent years councils annually attracted nonfederal contributions well in excess of the required 1:1 match, including \$9.8 million from state legislatures in 2005. More than one-third of total council income in 2005 came from nonfederal sources.

State humanities councils may regrant a portion of their NEH funds on a competitive basis to locally initiated programs; they also may develop and carry out their own programs. The councils thus play a dual role: In their grant making role, they act as foundations from which eligible organizations and individuals seek funding; in their program-generating role, they are nonprofit service providers drawing on their own resources and looking to the public to support the benefits they offer.

With their strong networks of cultural and educational institutions, state humanities councils are especially well-positioned to ensure that NEH’s *We the People* program reaches throughout every state and territory. State humanities councils are also energetically promoting NEH’s *We the People* programming by alerting the citizens of their states to the agency’s *We the People Bookshelf* program for public and school libraries and other specific funding opportunities related to this Endowment-wide program.

In FY 2006, the fifty-six councils received NEH funding to support designated *We the People* programs focused on topics related to American history and culture. These include such special activities as the Arkansas Humanities Council’s enhancement of its online Encyclopedia of Arkansas History; the Humanities Council of Washington, DC’s “Soul of the City” week-long, humanities-based community institute for at-risk high school students; programs examining the catastrophes of Hurricanes Katrina and Rita in relation to state and national history and culture supported by the Louisiana Endowment for the Humanities; and a course serving primarily low income women sponsored by Humanities Washington that explores how the American relationship to the landscape has defined our political, cultural, and social history.

The councils are also helping to advance the Administration's goals for civics education. The Illinois Humanities Council (IHC) has been offering *Justice Talking* to a number of AmeriCorps organizations around Chicago. These are discussions, using short philosophical and literary texts, on the nature of justice, service, and related themes. The IHC has recently received funding from NEH to disseminate this program to other parts of Illinois and other states. The national program will be known as *The Meaning of Service* and its primary partner is the web-based *Project on Civic Reflection*. The Rhode Island Council for the Humanities (RICH) ran a successful pilot program with the Providence police academy. RICH had responsibility for developing and delivering to the academy a humanities-based curriculum that would improve communication between police officers and residents of the city's neighborhoods and communities.

Through their support for book festivals, state councils encourage reading, another Administration priority. These festivals attract large, devoted audiences, featuring writers and poets, storytellers and booksellers, exhibitors and artisans of bookmaking. The ten councils that serve as their state's Center for the Book participate in the annual National Book Festival sponsored by the Library of Congress's Center for the Book and First Lady Laura Bush.

State humanities councils also support reading and discussion programs for children, families, and the newly literate that take place in libraries and other civic spaces; some are run in corrections systems. Active seniors read aloud to others in nursing homes, assisted living facilities, and adult day care. Programs provide forums of reading and discussion for adults with beginning to intermediate level reading ability and help participants to develop the skills and motivation to read, the enjoyment of reading, and the confidence to talk about books and ideas. Several councils sponsor seminars that use humanities texts to stimulate discussion about the complex social and ethical issues that professionals face in fields such as medicine, philanthropy, and law. By 2007, for example, eighteen state humanities councils will offer "Literature and Medicine: Humanities at the Heart of Health Care," a program for medical professionals developed by the Maine Humanities Council.

One of NEH's strategic objectives is to strengthen humanities teaching and learning in schools and colleges, and state councils play a vital role in support of this effort. Councils host resource centers that provide books, films, exhibitions, and other materials for teachers to use in classroom activities, and support programming that helps teachers respond at the local level to statewide initiatives and requirements. The Georgia Humanities Council, for example, has contracted with Scholastic Corporation, the children's book publisher, to produce and disseminate a historical timeline poster to teachers that highlights the *New Georgia Encyclopedia* and the *Digital Library of Georgia*, two of the council's recently created electronic resources. Councils also help to create networks linking institutions of higher learning, secondary schools, state departments of education, and such cultural institutions as museums and libraries. These institutional networks involve collaborations of college and university professors, teachers, parents, and students with the goal of enriching and enlivening humanities classroom activities.

Many teachers look to their state humanities councils annually for professional development institutes and seminars. For example, the Indiana Humanities Council has developed a teacher institute, which focuses participants on the construction of teachers guides aligned with state standards related to humanities subjects and on high tech interactive student modules using online learning resources, including primary documents, images, and lesson plans. These plans and modules are then catalogued into the Indiana Humanities Council's smartDESKTOP's Resource Connection, a database of links to teacher and student resources. The Minnesota Humanities Commission's professional development program for teachers and educators includes a seminar on Dakota and Ojibwe Language and Literacy and a workshop entitled "Sheeko Wadaag/Sharing Stories: From Home Language to School Literacy with Somali Families."

The state councils continue to explore ways to harness the power of digital technology to improve public access to humanities programs at the state and local level. In 2005, for example, the Massachusetts Foundation for the Humanities launched Mass Moments, an electronic almanac of Massachusetts history. Every day, radio and podcast listeners and Internet users find a different story about events and people from three centuries of Massachusetts history. In addition to streaming audio and the text of the minute-long spot, every story on the website has a background essay, primary source document, image, and links to both virtual and "real" resources. An interactive timeline and map provides historical and geographic context, and a message board offers the opportunity for visitors to post comments, corrections, or questions.

H: To establish collaborative partnerships with individuals and institutions in support of the humanities.

PERFORMANCE INDICATORS:

1) Partnerships are forged to leverage new resources for the humanities and expand audiences for the humanities.

- FY 2006: The Endowment developed a number of new partnerships with other institutions and organizations, leveraging approximately \$1.5 million in new funding for humanities programs.
- FY 2005: The Endowment developed of a number of new partnerships with other institutions and organizations, leveraging approximately \$1.5 million in new funding for humanities programs
- FY 2004: The Endowment developed of a number of new partnerships with other institutions and organizations, leveraging approximately \$1.5 million in new funding for humanities programs.

- FY 2003: The Endowment developed a number of new partnerships with other institutions and organizations, leveraging approximately \$1.5 million in new funding for humanities programs.
- 2) New programming, funding, and administrative partnerships are established with other agencies, foundations, and organizations, both public and private.
- FY 2006: NEH partnerships included the following: 1) a program of fellowships to be sponsored jointly by NEH and the Library of Congress to support humanities scholars who wish to conduct research at the Library of Congress; 2) the National Digital Newspapers Program, a multi-year collaboration with the Library of Congress to digitize and make publicly available on the World Wide Web newspapers already preserved on microfilm through the United States Newspapers Program; 3) the Advanced Research Fellowships on Japan Program to be jointly sponsored by NEH and the Japan-United States Friendship Commission (JUSFC); 4) the interagency *Save America's Treasures* initiative; and 5) programmatic collaboration with the National Trust for the Humanities.
 - FY 2005: NEH partnerships included the following: 1) a program of fellowships to be sponsored jointly by NEH and the Library of Congress to support humanities scholars who wish to conduct research at the Library of Congress; 2) the National Digital Newspapers Program, a multi-year collaboration with the Library of Congress to digitize and make publicly available on the World Wide Web newspapers already preserved on microfilm through the United States Newspapers Program; 3) the Advanced Research Fellowships on Japan Program, jointly sponsored by NEH and the Japan-United States Friendship; 4) the interagency *Save America's Treasures* initiative, and 5) programmatic collaboration with the National Trust for the Humanities.
 - FY 2004: NEH partnerships included a program of fellowships sponsored jointly by NEH and the Library of Congress to support humanities scholars who wish to conduct research at the Library of Congress, the interagency *Save America's Treasures*, and programmatic collaboration with the National Trust for the Humanities.
 - FY 2003: NEH partnerships included a program of fellowships sponsored jointly by NEH and the Library of Congress to support humanities scholars who wish to conduct research at the Library of Congress, the interagency *Save America's Treasures* initiative, and programmatic collaboration with the National Trust for the Humanities.

FY 2006 accomplishments. NEH has entered into formal partnership arrangements with one or more of its fellow agencies and with private foundations in order to collaborate on

specific projects. Currently, the NEH administers the review and evaluation of applications to the Library of Congress's John W. Kluge Fellows Program, which provides stipends to junior scholars from the U.S. and abroad to conduct research in the Library's humanities collections; and, in collaboration with the Japan-United States Friendship Commission, it conducts the evaluation of applications and serves as fiscal agent for a program to encourage American scholars' research on Japan.

The Endowment has entered into two partnerships in conjunction with agency-wide initiatives. As part of the *We the People* program, NEH and the Library of Congress recently established a partnership to create the National Digital Newspaper Program. Over a period of approximately 20 years, the Endowment will provide grants to institutions and organizations in each state of the nation to digitize titles published between 1836 and 1922 and to prepare fully searchable files that the Library of Congress would permanently maintain on the World Wide Web. In addition, the Endowment has embarked on a multi-year funding partnership with the National Science Foundation, "Documenting Endangered Languages," which provides NEH awards to scholars engaged in developing and advancing knowledge concerning dying languages.

The Endowment has also been alert to opportunities to pool NEH and private-sector resources in ways that make the most of each. One noteworthy example of this collaboration is EDSITEment, a nationally recognized gateway for teachers seeking rich humanities resources on the Internet. Administered through the MarcoPolo Education Foundation, EDSITEment (<http://edsitement.neh.gov>) now comprises 150 websites selected by peer review panels for their excellent humanities content, interactive design, and usefulness in the classroom. EDSITEment also includes over 360 extensive learning units for grades K-12, comprising rich material for over 1,000 class periods. Currently, EDSITEment averages over 200,000 user sessions per month.

III. FINANCIAL INFORMATION

A Message from the Director of Accounting

On behalf of the National Endowment for the Humanities (NEH), I am delighted to present the financial statements for fiscal year 2006. Our independent auditor has rendered an unqualified opinion on these statements.

NEH has now received an unqualified opinion in each of the two years in which independent financial audits have been conducted. This achievement demonstrates both our continued dedication to effective financial management and the reliability of the financial data upon which we base our budget and financial decisions. The attainment of the clean opinion in our first years of the preparation of financial statements and audits also reflects NEH's commitment of resources necessary to ensure that our financial system and internal management controls are sound.

Of the five audit findings related to fiscal year 2005, three have been resolved by corrective action, one is pending resolution, and one remains uncorrected although the auditors noted progress.

For fiscal year 2006, our independent auditor identified two reportable conditions: one is a repeat audit finding from fiscal year 2005 dealing with separation of duties and the other is related to the capitalization of a computer lease. We plan to completely resolve the separation of duties finding in fiscal year 2006. As for the computer lease, we have capitalized the lease for fiscal year 2006 reporting and will implement a review process when contracting for future leases.

At NEH, achieving financial management excellence is a team effort. I would like to thank the Accounting staff for their support and contribution to the success of the fiscal year 2006 audit. The Accounting Office is poised for even greater success in fiscal year 2007.

Looking ahead, NEH is committed to the effective and efficient management of agency resources. To fulfill this commitment, we will continue to improve financial management by resolving audit findings, strengthening internal controls, and promoting the optimum effectiveness of the Oracle financial system.

John Gleason
Director, Accounting Office

November 15, 2006

Agency Financial Statements and Auditor's Report



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Chairman, National Endowment for the Humanities

Independent Auditor's Report

We have audited the balance sheets of the National Endowment for the Humanities (NEH) as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, budgetary resources, and financing (the financial statements) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the NEH's internal control over financial reporting and tested the NEH's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we found that the NEH's financial statements as of and for the years ended September 30, 2006 and 2005 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our report also discusses the restatement of NEH's net position accounts.

Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, our testing of internal control identified a material weakness in financial reporting related to separation of incompatible duties, particularly in the assignment of systems access roles and responsibilities. We also noted a reportable condition related to capitalization of leased equipment, which was not considered to be a material weakness.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

The following sections discuss in more detail our opinion on the NEH's financial statements, our consideration of the NEH's internal control over financial reporting, our tests of the NEH's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the NEH as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, budgetary resources, and financing for the years then ended.

As described in Note 13, NEH restated its 2005 financial statements to correct errors in net position accounts. During fiscal year 2006, NEH management discovered that Unexpended Appropriations in its legacy accounting system had been misstated by approximately \$1.5 million related to reimbursable services the NEH had provided to other Federal agencies in fiscal years 2000 through 2003. If we had been aware of this misstatement in 2005, and if management had been unable to record appropriate adjustments, we would have qualified our opinion on the fiscal year 2005 financial statements. Our opinion in the preceding paragraph replaces our previous report, and no further reliance should be placed on that prior report.

In Note 13, NEH has also described a correction to record a \$218 thousand capital lease into which the agency entered during fiscal year 2005. The effect of the entries to record the capital lease was not sufficiently material to affect the fiscal year 2005 opinion on the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, and financing of the NEH as of and for the years ended September 30, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of NEH management regarding the methods of measurement and presentation of the supplementary information and analysis of the information for consistency with the financial statements. However, we did not audit the information and express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted certain matters, discussed in the following paragraphs, involving internal control and its operation that we consider to be reportable conditions. We also consider the matter concerning inadequate separation of incompatible duties to be a material weakness.

1. The current NEH system access authorities do not provide adequate separation of incompatible duties. This issue was reported as a material weakness in the Independent Auditor's Report on the fiscal year 2005 financial statements. During our review of current year access authorities, we noted that NEH had separated a number of incompatible roles compared to the previous year. However, some incompatibilities remain.

The list of authorized users for the Oracle financial system includes individuals from the Office of Information Resources Management (OIRM) who have mission-related functions such as Payables Manager, General Ledger Manager, and Purchasing Manager. Conversely, one individual from the Administrative Services Office has Application Administrator authority, an information systems support function.

The National Institute of Standards and Technology (NIST) Federal Information Processing Standards Publication 200 (FIPS Pub 200), *Minimum Security Requirements for Federal Information and Information Systems*, requires Federal information systems to comply with NIST Special Publication 800-53 (SP 800-53), *Recommended Security Controls for Federal Information Systems* and states that there are no provisions for waivers of related requirements. Agencies have one year from the March 2006 date of final publication of FIPS Pub 200 to comply.

SP 800-53, Security Catalog section AC-5, *Separation of Duties*, requires Federal information systems to enforce separation of duties through assigned access authorizations. SP 800-53 recognizes in section 3.3 that "...organizations may find it necessary, on occasion, to specify and employ compensating security controls." The NIST publication cites as an example of such an occasion the situation in which an organization with significant staff limitations may have difficulty in meeting the separation of duties security control but may employ compensating controls by strengthening the audit and accountability controls and personnel security controls within the information system.

When NEH implemented Oracle, technical difficulties, coupled with organizational turmoil in the accounting function, forced the agency to take any measures possible to get the all of the modules of the financial management system fully operational. Access authorities were assigned more on the basis of an individual's ability to take on a responsibility than on his or her specific position in the organization.

Over the past year, the agency has resolved the technical difficulties, reconciled the Oracle system, and brought it to a more steady-state status. NEH also officially named an Accounting Officer in March 2006, thus bringing more stability to the accounting organization. The agency is increasingly in a better position to modify its security structure in Oracle to comply with the requirements of SP 800-53.

NEH has implemented compensating controls in the form of management review of the Invoice Register for each individual who has both mission functions and distinct information system support functions. Although the review compensates somewhat for the access control weaknesses, we believe it is more susceptible than the prescribed control to breaking down if other agency priorities prevent management from performing careful and thorough reviews. Therefore, we do not believe that the compensating control meets the threshold of providing "...equivalent or comparable protection for an information system..." as required by SP 800-53.

Recommendation

We recommend that NEH continue to re-evaluate and re-align its financial management system security structure to separate incompatible duties, including system-enforced separation of mission and information system support functions.

Management Response

NEH management agreed with the facts as presented and with the recommendation.

The NEH Office of Inspector General has recently undertaken a FISMA-related examination of the privileges, rights, and responsibilities of users within Oracle to determine incompatible functions and to review system and information ownership controls. The resulting report included a series of recommendations that parallel and extend those offered by the auditors in this finding. Although response to the OIG report is not due until after the scheduled issuance of the draft financial audit report, NEH management has crafted plans with associated timetables for implementing the OIG report's recommended actions. In addition, NEH management has identified ways to redefine functions available within specific access roles and responsibilities and realign those functions so that incompatible functions can be better segregated.

Auditor's Comment

We reviewed NEH management's draft response to the OIG report and descriptions of new and modified roles and responsibilities. If implemented as described in the

draft response, we believe the controls should provide sufficient system-enforced separation of duties in the financial management system to resolve this finding.

2. NEH did not capitalize a lease for computers that met capitalization requirements.

Statement of Federal Financial Accounting Standards (SFFAS) Number 6, *Accounting for Property, Plant and Equipment (PP&E)* (as amended) requires leases that transfer substantially all the benefits and risks of ownership to the lessee to be capitalized, if it meets one or more of four specific criteria. The NEH computer lease was a lease-to-own and the lease term equaled the useful life of the asset. As such it met at least two of the criteria of SFFAS 6. OMB Circular A-11, *Preparation Submission and Execution of the Budget*, Appendix B, requires capital leases to be fully funded in the year of inception.

NEH did not have the mechanism or process to identify and evaluate leases to determine whether they need to be capitalized. Although NEH ultimately capitalized the computer lease as well as a prior year lease for copiers, absence of capitalization could have caused assets and liabilities to be understated and expenses to be overstated on the financial statements. In addition, without a process for evaluating leases as capital versus operating leases, NEH may not include the effect of the capital leases in budgets to ensure they are funded in the year of inception.

Recommendation

NEH should put in place a method to evaluate leases before they are signed to determine whether to budget them as capital leases.

Management Response

NEH management agreed with the finding. In the future, NEH's Contracting Officer, in consultation with the Accounting Office, will perform a pre-contract review of each lease under consideration for the purpose of determining whether the proposed contract is an operating or capital lease. This procedure will ensure that the treatment of the leases meets established requirements for reporting and for budgetary and proprietary accounting. Concerning the condition described in this finding, NEH did not initially capitalize the lease because of a misunderstanding concerning NEH's existing capitalization policy. The misunderstanding was resolved after discussions with the auditors. NEH has now recorded the capital lease for 2006 reporting, thereby eliminating the effect of this specific audit finding.

Auditor's Comment

Management's comments were responsive to the finding and recommendation and, if implemented as described, should be sufficient to resolve the control weakness.

Management of NEH reported the aforementioned material weaknesses in its reporting prepared pursuant to the Federal Managers' Financial Integrity Act (FMFIA).

A summary of the status of prior year reportable conditions is included as Attachment 1.

We noted other matters involving internal control over financial reporting and its operation that we have reported to the management of the NEH in a separate letter dated October 20, 2006.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03.

RESPONSIBILITIES

Management Responsibilities

Management of the NEH is responsible for: (1) preparing the financial statements in conformity with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the FMFIA are met; and (3) complying with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditor Responsibilities

Our responsibility is to express an opinion on the fiscal year 2006 and 2005 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes (1) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered the NEH's internal control over financial reporting by obtaining an understanding of the agency's internal control, determining whether internal controls had been placed in operation, assessing control

risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA. Our procedures were not designed to provide assurance on internal control over financial reporting. Consequently, we do not express an opinion thereon.

As required by OMB Bulletin No. 06-03, with respect to internal control related to performance measures determined to be key and reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and significant provisions of contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 06-03. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the NEH. Providing an opinion on compliance with certain provisions of laws, regulations, and significant contract provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03, auditors are generally required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level specified in the Federal Financial Management Improvement Act of 1996 (FFMIA). However, the Accountability of Tax Dollars Act, which requires the NEH to prepare and submit audited financial statements to Congress and the Director of OMB, did not extend to NEH the requirement to comply with FFMIA. Consequently, we did not test, nor are we reporting on, the NEH's compliance with FFMIA.

AGENCY COMMENTS AND AUDITOR EVALUATION

In commenting on the draft of this report, the management of NEH concurred with the facts and conclusions in our report. A copy of management's response, which includes discussion of actions planned or taken to correct the reported deficiencies, accompanies this report.

DISTRIBUTION

This report is intended solely for the information and use of the management and the Office of Inspector General of the NEH, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Leon Snead & Company, P.C.

Leon Snead & Company, P.C.

October 20, 2006

Status of Prior Year Findings

<u>Description</u>	<u>Status as of September 30, 2006</u>
1. NEH had not fully documented its policies, procedures, and processes to ensure all transactions are documented, approved, and processed correctly.	1. Resolved. Agency management established written policies and procedures for manual journal entries of transactions that take place outside the integrated Oracle applications' automatic postings to the general ledger.
2. NEH did not have sufficient controls in place to prevent violations of the Anti-Deficiency Act.	2. Final resolution pending. NEH management worked with OMB to ensure the apportionment of administrative funds would allow the agency to obligate full year costs of unavoidable expenses such as rent and payroll without exceeding the agency's apportionment. During August 2006, NEH submitted a draft of the agency's new directive on Administrative Control of Funds to the OMB for their review. As of October 20, 2006, the agency was awaiting OMB's final approval of the directive.
3. System access authorities did not provide adequate separation of incompatible duties.	3. Although updated for progress achieved during 2006, this finding was repeated as finding #1 in the current year report.
4. A limited amount of historical data was available to be used in estimating grantee liabilities at year-end.	4. Resolved. The agency's financial management system continued to collect additional data during 2006 and the application of the same method of estimating the grant liabilities used in 2005 produced consistent results in 2006.
5. NEH had not recorded upward adjustments to prior year obligations properly.	5. Resolved. NEH management developed a method for identifying and recording upward adjustments of prior year obligations.

NATIONAL ENDOWMENT FOR THE HUMANITIES

BALANCE SHEET

As of September 30, 2006 (CY) and 2005 (PY)

(in US Dollars)

	2006	Restated 2005
ASSETS		
Intragovernmental:		
Cash & fund balance with U.S. Treasury (Note 2)	\$ 127,738,396	\$ 123,356,935
Receivables and advances (Note 3)	49,794	402,286
Total intragovernmental	127,788,190	123,759,221
Receivables and advances (Note 3)	3,139,292	2,454,197
Property and equipment, net (Note 4)	350,703	215,868
TOTAL ASSETS	131,278,185	126,429,286
LIABILITIES		
Intragovernmental:		
Accounts payable and accrued expenses (Note 5)	84,144	117,781
Total intragovernmental	84,144	117,781
Accounts payable and accrued expenses (Note 5)	22,325,096	21,508,955
Unfunded FECA actuarial liability (Note 8)	221,589	204,543
Unfunded annual leave (Note 8)	1,215,981	1,137,578
Total liabilities	23,846,810	22,968,857
Commitments and Contingencies (Note 1)		
NET POSITION		
Unexpended appropriations - other funds	105,753,722	102,075,516
Unexpended appropriations - earmarked funds (Note 11)	-	-
Cumulative results operations - other funds	996,140	1,384,913
Cumulative results operations - earmarked funds (Note 11)	681,513	-
Total net position	107,431,375	103,460,429
TOTAL LIABILITIES AND NET POSITION	\$ 131,278,185	\$ 126,429,286

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE HUMANITIES**STATEMENT OF NET COST****For the years ended September 30, 2006 (CY) and 2005 (PY)****(in US Dollars)**

	2006	2005
PROGRAM COSTS (Notes 11, 12, 15)		
Federal/State Partnerships	\$ 33,188,348	\$ 35,007,855
Preservation and Access	24,127,076	25,158,608
Research	16,284,383	17,712,811
Public Programs	12,855,633	20,119,281
Education	13,223,992	19,036,992
We the People	14,132,313	11,024,850
Challenge Grants	9,922,699	10,854,759
Other Programs	<u>1,057,211</u>	<u>572,209</u>
Total Programs Costs	124,791,655	139,487,365
Costs not assigned to Programs	16,080,280	18,337,571
Less: Earned revenues not attributed to programs	<u>1,503,540</u>	<u>1,880,826</u>
NET COST OF OPERATIONS	<u>\$ 139,368,395</u>	<u>\$ 155,944,110</u>

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE HUMANITIES

STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2006 (CY) and 2005 (PY)
(in US Dollars)

	2006			Restated 2005
	Earmarked Funds	All Other Funds	Total	Total
<u>CUMULATIVE RESULTS OF OPERATIONS</u>				
Beginning balances (Note 13)	\$ 752,722	\$ 632,191	\$ 1,384,913	\$ 1,216,445
Adjustments:	-	-	-	-
Beginning balances, as adjusted	752,722	632,191	1,384,913	1,216,445
Budgetary financing sources:				
Appropriations received (current period)	-	-	-	-
Rescissions	-	-	-	-
Donations	1,083,579		1,083,579	689,393
Appropriations used	(2,228)	137,275,350	137,273,122	153,496,387
Other financing resources:				
Imputed financing from costs absorbed by others (Note 1)	-	1,304,434	1,304,434	1,926,798
Other	-	-	-	-
Total financing sources	1,081,351	138,579,784	139,661,135	156,112,578
Net cost of operations	(1,152,560)	(138,215,835)	(139,368,395)	(155,944,110)
Net change	(71,209)	363,949	292,740	168,468
Cumulative Results of Operations	681,513	996,140	1,677,653	1,384,913
<u>UNEXPENDED APPROPRIATIONS</u>				
Beginning balances (Note 13)	(4,195)	102,079,711	102,075,516	117,517,836
Adjustments:	-	-	-	-
Beginning balances, as adjusted	(4,195)	102,079,711	102,075,516	117,517,836
Budgetary financing sources:				
Appropriations received (current period)	-	143,054,000	143,054,000	139,999,000
Rescissions	-	(2,104,668)	(2,104,668)	(1,944,933)
Donations	-	-	-	-
Appropriations used	4,195	(137,275,321)	(137,271,126)	(153,496,387)
Total budgetary financing sources	4,195	3,674,011	3,678,206	(15,442,320)
Total Unexpended Appropriations	-	105,753,722	105,753,722	102,075,516
<u>NET POSITION</u> (Note 11)	<u>\$ 681,513</u>	<u>\$ 106,749,862</u>	<u>\$ 107,431,375</u>	<u>\$ 103,460,429</u>

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE HUMANITIES

STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2006 (CY) and 2005 (PY)

(in US Dollars)

BUDGETARY RESOURCES	2006	2005
Unobligated balance, beginning of period, October 1	\$ 4,444,646	\$ 4,169,049
Recoveries of prior year obligations	1,571,605	542,955
Budgetary authority:		
Appropriations received	144,137,579	140,640,393
Spending authority from offsetting collections		
Change in unfilled customer orders	-	-
Advance received	9,924	30,534
Without advance from Federal sources	1,000,000	-
Earned		
Collected	1,891,873	1,794,945
Change in receivables from Federal sources	(352,492)	202,421
Permanently not available - rescission	(2,104,668)	(1,944,933)
Total Budgetary Resources	<u>150,598,467</u>	<u>145,435,364</u>

STATUS OF BUDGETARY RESOURCES

Obligations incurred: (Note 14)		
Direct	142,518,801	139,271,581
Reimbursable	1,891,741	1,719,137
Subtotal	144,410,542	140,990,718
Unobligated balance		
Apportioned	5,976,746	4,444,646
Exempt from apportionment	-	-
Subtotal	5,976,746	4,444,646
Unobligated balance not available	211,179	-
Status of Budgetary Resources	<u>150,598,467</u>	<u>145,435,364</u>

CHANGE IN OBLIGATED BALANCES

Obligated Balances, net		
Unpaid obligations, brought forward, October 1	119,248,109	116,117,678
less: Uncollected customer payments from		
Federal sources	(378,717)	(176,296)
Total, Unpaid obligated balance, net, beg. of period	<u>118,869,392</u>	<u>115,941,382</u>
Obligations incurred, net	144,410,542	140,990,718
less: Gross outlays	(139,510,350)	(137,571,159)
less: Recoveries of prior year obligations	(1,571,605)	(542,955)
Change in uncollected customer payments	(647,508)	202,421
Subtotal	<u>2,681,079</u>	<u>3,079,025</u>
Obligated balances, net, end of period (Note 16)		
Unpaid Obligations	122,576,695	119,248,109
less: Uncollected customers payments from Federal sources	(1,026,225)	(378,717)
Total, Unpaid obligated balance, net, end of period	<u>121,550,470</u>	<u>118,869,392</u>
Net Outlays		
Net Outlays:		
Gross outlays	139,510,350	137,571,159
less: Offsetting collections	(1,901,797)	(1,825,479)
less: Distributed offsetting receipts	(1,083,579)	(689,393)
Net Outlays	<u>\$ 136,524,974</u>	<u>\$ 135,056,287</u>

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE HUMANITIES

STATEMENT OF FINANCING

For the Years Ended September 30, 2006 (CY) and 2005 (PY)
(in US Dollars)

	2006	2005
RESOURCES USED TO FINANCE ACTIVITIES:		
Obligations incurred	\$ 144,410,542	\$ 140,990,718
Less: Spending authority from offsetting collections and recoveries	4,120,910	2,570,855
Obligations net of offsetting collections and recoveries	140,289,632	138,419,863
Less: Offsetting receipts	1,083,579	689,393
Net Obligations	139,206,053	137,730,470
Imputed financing from costs absorbed by others	1,304,434	1,926,798
Total resources used to finance activities	140,510,487	139,657,268
 RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in budgetary resources obligated for goods not part of the net cost of operations	(1,966,168)	15,341,932
Budgetary offsetting collections and receipts that do not affect net cost of operations	1,083,579	689,393
Other resources and adjustments to net obligated resources that do not affect net cost of operations	(664)	(13,633)
Resources that finance acquisition of assets	(446,431)	-
Total resources used to finance the net cost of operations	139,180,803	155,674,960
 COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:		
Components requiring or generating resources in future periods:		
Annual leave liability increase	78,403	61,205
Other	3,096	207,945
Total components of net cost of operations that will require or generate resources in future periods	81,499	269,150
Components not requiring or generating resources:		
Depreciation and amortization	93,220	-
Other	12,873	-
Total components of the net cost of operations that will not require or generate resources in the current period	187,592	269,150
 NET COST OF OPERATIONS	\$ 139,368,395	\$ 155,944,110

The accompanying notes are an integral part of these statements.

National Endowment for the Humanities
Notes to the Financial Statements
As of and For the Fiscal Years Ended
September 30, 2006 and 2005
(In US Dollars)

The following Notes include the disclosure requirements contained in the Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements" and the "Statements of Federal Financial Accounting Standards" (SFFAS).

Note 1- Significant Accounting Policies

A. Reporting Entity

The National Endowment for the Humanities (NEH) is an independent grant-making agency of the United States government dedicated to supporting research, education, preservation, and public programs in the humanities. NEH was established by the National Foundation on the Arts and the Humanities Act of 1965.

B. Basis of Presentation

These financial statements are provided to meet the requirements of the Accountability of Tax Dollars Act of 2002. The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing.

These financial statements have been prepared to report the financial position and results of operations of NEH. These statements were prepared from the books and records of NEH in conformity with the accounting principles generally accepted in the United States and OMB Circular A-136, "Financial Reporting Requirements."

C. Basis of Accounting

Transactions are generally recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Each year, Congress provides NEH appropriations to incur obligations in support of agency programs. Budgetary accounting is the means of recording these appropriations and measuring the consumption of budget authority and other budgetary resources.

National Endowment for the Humanities
Notes to the Financial Statements
As of and For the Fiscal Years Ended
September 30, 2006 and 2005
(In US Dollars)

Note 1- Significant Accounting Policies (continued)

D. Revenues and Other Financing Sources

NEH receives funding through annual Congressional appropriations from the budget of the United States. No-year appropriations are used, within statutory limits, for operations and capital expenditures for essential personal property. Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are recognized as revenues when assets are consumed in operations.

NEH was granted the authority to receive donations and to invest in interest-bearing accounts. Accounts are maintained for restricted as well as unrestricted funding and NEH observes the same guidelines for the appropriate use of donated funds as for appropriated funds. This authority allows the Chairman to incur representation and reception expenses.

E. Fund Balance with Treasury

Funds with the Department of the Treasury primarily represent appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. See Note 2 for additional information.

F. Advances and Prepayments

NEH records grant payments for work not yet performed at year-end as advances. The advances are recorded as expenses in the subsequent fiscal year.

National Endowment for the Humanities
Notes to the Financial Statements
As of and For the Fiscal Years Ended
September 30, 2006 and 2005
(In US Dollars)

Note 1 - Significant Accounting Policies (continued)

G. General Property, Plant and Equipment

NEH policy is to depreciate property, plant and equipment over the estimated useful life of the asset. The capitalization threshold is \$50,000 for individual purchases and \$50,000 for aggregate purchases with a minimum of \$10,000 per item. Service lives are listed below:

<u>Description</u>	<u>Estimated Useful Life</u>
Leasehold improvements	Term of Lease
Capital Leases	Term of Lease
Office Furniture	7 years
Computer Equipment and Software	3 years
Office Equipment	5 years

H. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by NEH due to transactions or events that have already occurred. No liability can be paid, however, absent an appropriation, or in some cases donated funds. Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, liabilities can be abrogated by the Government, acting in its sovereign capacity.

I. Accounts Payable

Accounts payable consists of amounts owed to other federal agencies, commercial vendors, and grant liabilities. Accounts payable to commercial vendors are expenses for goods and services received but not yet paid by NEH. Grant liabilities are grantee expenses not yet funded or reimbursed by NEH. At fiscal year-end, NEH records an accrual for the amount of estimated unreimbursed grantee expenses.

National Endowment for the Humanities
Notes to the Financial Statements
As of and For the Fiscal Years Ended
September 30, 2006 and 2005
(In US Dollars)

Note 1 - Significant Accounting Policies (continued)

J. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates and balances. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

K. Retirement Plans

NEH employees participate in the Civil Services Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984, participated in CSRS unless they elected to join FERS and Social Security.

All employees are eligible to contribute to the Thrift Saving Plan (TSP). For those employees participating in FERS, a TSP account is automatically established and NEH makes a mandatory one percent contribution to this account. In addition, NEH makes matching contributions, ranging from one to four percent, for FERS-eligible employees who contribute to their TSP accounts. Matching contributions are not made to TSP accounts established by CSRS employees.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, NEH remits the employer's share of the required contribution.

NEH does not report on its financial statements information pertaining to the retirement plans covering its employees except for imputed costs related to retirement (see L. below). Reporting amounts such as plan assets and accumulated plan benefits, if any, is the responsibility of the Office of Personnel Management.

National Endowment for the Humanities
Notes to the Financial Statements
As of and For the Fiscal Years Ended
September 30, 2006 and 2005
(In US Dollars)

Note 1 - Significant Accounting Policies (continued)

L. Imputed Benefit Costs

NEH reports imputed benefit costs on Life Insurance, Health Insurance, and Retirement. The Office of Personnel Management (OPM) supplies the cost factors that are applied to the Agency's records.

M. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

N. Commitments and Contingencies

There are no commitments or contingencies that require disclosure.

Note 2 - Fund Balance with Treasury

Fund balance	<u>2006</u>	<u>2005</u>
Appropriated funds	\$127,046,735	\$122,849,225
Trust funds	691,661	464,813
Custodial funds (nonentity)	<u>-0-</u>	<u>42,897</u>
Total	<u>\$127,738,396</u>	<u>\$123,356,935</u>
Status of fund balance with treasury		
Unobligated balance- available	5,976,746	4,444,646
Unobligated balance - unavailable	211,179	42,897
Obligated balance not yet disbursed	<u>121,550,471</u>	<u>118,869,392</u>
Total	<u>\$127,738,396</u>	<u>\$123,356,935</u>

National Endowment for the Humanities
Notes to the Financial Statements
As of and For the Fiscal Years Ended
September 30, 2006 and 2005
(In US Dollars)

Note 2 - Fund Balance with Treasury (continued)

Fund Balance with Treasury is the aggregate amount of NEH's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. The Trust Fund includes amounts donated to NEH. Some of these funds are restricted for intended purposes.

Note 3 - Accounts Receivable

	<u>2006</u>	<u>2005</u>
	<u>Current</u>	<u>Current</u>
Gross Receivables		
Receivables from services to federal agencies	\$ 26,225	\$ 402,286
Receivables from the public		
Advances to grantees	3,113,375	2,444,197
Other receivables	49,486	10,000
Allowance for uncollectible accounts	<u>-0-</u>	<u>-0-</u>
Net Receivables	<u>\$3,189,086</u>	<u>\$2,856,483</u>

Note 4 - General Property, Plant and Equipment, Net

NEH policy is to depreciate property, plant and equipment over the estimated useful life of the asset. The capitalization threshold is \$50,000 for individual purchases and \$50,000 for aggregate purchases with a minimum of \$10,000 per item. Property and equipment, net, as of September 30, 2006 and 2005, consisted of the following:

Fiscal Year	Major Class	Service Life and Method	Cost	Accumulated Amortization /Depreciation	Net Book Value
<u>2006</u>	Capital Leases	Life of Lease/Straight	\$472,433	\$121,730	\$350,703
<u>2005</u>	Capital Leases	Life of Lease/Straight	\$244,379	\$ 28,511	\$215,868

National Endowment for the Humanities
Notes to the Financial Statements
As of and For the Fiscal Years Ended
September 30, 2006 and 2005
(In US Dollars)

Note 5 - Liabilities

Intragovernmental	<u>2006</u>	<u>2005</u>
	<u>Current</u>	<u>Current</u>
Accrued unfunded FECA liability	\$ 43,686	\$ 44,350
Advances from others	40,458	30,534
Custodial liability	<u>-0-</u>	<u>42,897</u>
Total Intragovernmental	84,144	117,781
Accrued funded payroll and leave	524,472	513,781
Employee contributions & payroll taxes payable	121,165	120,368
Actuarial FECA liability	221,589	204,543
Accrued unfunded leave	1,215,981	1,137,578
Accrued liabilities due – non-Government	<u>21,679,459</u>	<u>20,874,806</u>
Total Liabilities	<u>\$23,846,810</u>	<u>\$22,968,857</u>

Note 6 - Leases

Operating Leases:

Description of Lease Arrangements:

Office Space: The National Endowment for the Humanities rents office space from the General Services Administration in the Old Post Office Building at 1100 Pennsylvania Avenue. The term of the lease is from May 1, 2005 through October 31, 2008.

Operating lease	<u>2006</u>	<u>2005</u>
Future payments due:	<u>Office Space</u>	<u>Office Space</u>
Fiscal year 2006	\$ -0-	\$2,132,510
Fiscal year 2007	2,144,052	2,144,052
Fiscal year 2008	1,892,017	1,892,017
Fiscal year 2009	48,447	48,447
Fiscal year 2010	<u>-0-</u>	<u>-0-</u>
Total future payments	<u>\$4,084,516</u>	<u>\$6,217,026</u>

National Endowment for the Humanities
Notes to the Financial Statements
As of and For the Fiscal Years Ended
September 30, 2006 and 2005
(In US Dollars)

Note 6 - Leases (continued)

Capital Leases:

(A) Computers: In fiscal year 2006, NEH purchased 219 computers under a lease-to-own contract. The lease term is 36 months ending February 28, 2009.

(B) Photocopiers: In fiscal year 2005, NEH -purchased 21 photocopiers under a lease-to-own contract. The lease term is 60 months ending February 28, 2010.

Summary of assets under capital lease:	<u>2006</u>	<u>2005</u>
Machinery and equipment	\$472,433	\$244,379
Accumulated amortization	121,730	28,511

Capital lease	<u>2006</u>	<u>2005</u>
Future payments due:	<u>Equipment</u>	<u>Equipment</u>
Fiscal year 2006	\$ -0-	\$ 54,140
Fiscal year 2007	153,846	54,140
Fiscal year 2008	153,846	54,140
Fiscal year 2009	95,684	54,140
Fiscal year 2010	<u>22,558</u>	<u>22,558</u>
Total future payments	425,934	239,118
Less: imputed interest	23,784	20,741
Less: executory costs	<u>43,631</u>	<u>-0-</u>
Net capital lease liability	<u>\$358,519</u>	<u>\$218,377</u>

Note 7 - Incidental Custodial Collections

	<u>2006</u>	<u>2005</u>
Income from NEH projects funded in previous years	\$42,042	\$42,897
Total cash collections	<u>42,042</u>	<u>42,897</u>
Disposition of collections:		
Transferred to Treasury (general fund)	42,042	42,897
Retained by NEH	<u>-0-</u>	<u>-0-</u>
Net custodial revenue activity	\$ <u>-0-</u>	\$ <u>-0-</u>

National Endowment for the Humanities
Notes to the Financial Statements
As of and For the Fiscal Years Ended
September 30, 2006 and 2005
(In US Dollars)

Note 8 - Liabilities Not Covered by Budgetary Resources

	<u>2006</u>	<u>2005</u>
Intragovernmental		
Accrued unfunded FECA	\$ 43,686	\$ 44,350
Total intragovernmental	<u>43,686</u>	<u>44,350</u>
Federal employee & veteran benefits	221,589	204,543
Accrued unfunded leave	<u>1,215,981</u>	<u>1,137,578</u>
Total liabilities not covered by budgetary resources	1,481,256	1,386,471
Total liabilities covered by budgetary resources	<u>22,365,554</u>	<u>21,582,386</u>
Total liabilities	<u>\$23,846,810</u>	<u>\$22,968,857</u>

Note 9 - Explanation of Differences between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods

Components that comprise liabilities not covered by budgetary resources represent the cumulative balance of the liability. By contrast, components requiring or generating resources in future periods included in the Statement of Financing represent the change in the liability created in the current year.

Note 10 - Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

The President's Budget which includes actual numbers for fiscal year 2006 has not yet been published. Actual numbers for fiscal year 2006 will be included in the President's Budget for fiscal year 2008, which will be published on February 5, 2007, and will be available at <http://www.whitehouse.gov/omb/>.

National Endowment for the Humanities
Notes to the Financial Statements
As of and For the Fiscal Years Ended
September 30, 2006 and 2005
(In US Dollars)

Note 11 - Earmarked Funds

	Gifts and Donations	Eliminations	Total Earmarked Funds
Balance sheet, as of September 30th, 2006			
Assets			
Fund balance with Treasury	\$691,661	\$-0-	\$691,661
Other assets	<u>23,569</u>	<u>-0-</u>	<u>23,569</u>
Total assets	<u>715,230</u>	<u>-0-</u>	<u>715,230</u>
Liabilities	<u>33,717</u>	<u>-0-</u>	<u>33,717</u>
Unexpended Appropriations	-0-	-0-	-0-
Cumulative results of operations	<u>681,513</u>	<u>-0-</u>	<u>681,513</u>
Total liabilities and net position	<u>715,230</u>	<u>-0-</u>	<u>715,230</u>
Statement of net cost,			
for the period ended September 30, 2006			
Gross program costs	1,152,560	-0-	1,152,560
Less earned revenues	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net program costs	1,152,560	-0-	1,152,560
Costs not attributable to program costs	-0-	-0-	-0-
Less earned revenues not attributable to program costs	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net cost of operations	<u>1,152,560</u>	<u>-0-</u>	<u>1,152,560</u>
Statement of changes in net position,			
for the period ended September 30, 2006			
Net position, beginning of period	752,722	-0-	752,722
Non-exchange revenue	1,083,579	-0-	1,083,579
Other financing sources	(2,228)	-0-	(2,228)
Net cost of operations	<u>1,152,560</u>	<u>-0-</u>	<u>1,152,560</u>
Change in net position	<u>(71,209)</u>	<u>-0-</u>	<u>(71,209)</u>
Net position, end of period	<u>\$ 681,513</u>	<u>\$ -0-</u>	<u>\$ 681,513</u>

National Endowment for the Humanities
Notes to the Financial Statements
As of and For the Fiscal Years Ended
September 30, 2006 and 2005
(In US Dollars)

Note 12 – Intragovernmental Costs and Exchange Revenue

OMB Circular A-136 has changed the disclosure requirements for transactions between Federal entities and with the public. Under the revised guidance, NEH will present costs associated with Federal agencies, as well as costs associated with the public.

The following amounts present NEH earned revenues for sales of goods and services to Federal agencies and the public, gross costs associated with sales of goods and services to Federal agencies and the public, and net cost of operations by program.

<u>Programs</u>	<u>2006</u>	<u>2005</u>
<u>Federal/State Partnerships</u>		
Intragovernmental costs	\$ -0-	\$ -0-
Public costs	33,188,348	35,007,855
Total costs	<u>33,188,348</u>	<u>35,007,855</u>
Intragovernmental earned revenue	-0-	-0-
Public earned revenue	-0-	-0-
Total earned revenue	<u>-0-</u>	<u>-0-</u>
Net costs	33,188,348	35,007,855
<u>Preservation and Access</u>		
Intragovernmental costs	170	263,411
Public costs	24,126,906	24,895,197
Total costs	<u>24,127,076</u>	<u>25,158,608</u>
Intragovernmental earned revenue	1,477,315	1,291,744
Public earned revenue	-0-	-0-
Total earned revenue	<u>1,477,315</u>	<u>1,291,744</u>
Net costs	22,649,761	23,866,864
<u>Research</u>		
Intragovernmental costs	1,190	4,343
Public costs	16,283,193	17,708,468
Total costs	<u>16,284,383</u>	<u>17,712,811</u>
Intragovernmental earned revenue	-0-	51,424
Public earned revenue	-0-	347,293
Total earned revenue	<u>-0-</u>	<u>398,717</u>
Net costs	16,284,383	17,314,518

National Endowment for the Humanities
Notes to the Financial Statements
As of and For the Fiscal Years Ended
September 30, 2006 and 2005
(In US Dollars)

Note 12 – Intragovernmental Costs and Exchange Revenue (continued)

<u>Programs</u>	<u>2006</u>	<u>2005</u>
<u>Public Programs</u>		
Intragovernmental costs	47,828	47,261
Public costs	12,807,805	20,072,020
Total costs	<u>12,855,633</u>	<u>20,119,281</u>
Intragovernmental earned revenue	-0-	-0-
Public earned revenue	-0-	-0-
Total earned revenue	<u>-0-</u>	<u>-0-</u>
Net costs	12,855,633	20,119,281
<u>Education</u>		
Intragovernmental costs	64,408	56,386
Public costs	13,159,584	18,980,606
Total costs	<u>13,223,992</u>	<u>19,036,992</u>
Intragovernmental earned revenue	-0-	-0-
Public earned revenue	-0-	-0-
Total earned revenue	<u>-0-</u>	<u>-0-</u>
Net costs	13,223,992	19,036,992
<u>We The People</u>		
Intragovernmental costs	466,364	539,740
Public costs	13,665,949	10,485,110
Total costs	<u>14,132,313</u>	<u>11,024,850</u>
Intragovernmental earned revenue	-0-	-0-
Public earned revenue	-0-	-0-
Total earned revenue	<u>-0-</u>	<u>-0-</u>
Net costs	14,132,313	11,024,850
<u>Challenge Grants</u>		
Intragovernmental costs	-0-	-0-
Public costs	9,922,699	10,854,759
Total costs	<u>9,922,699</u>	<u>10,854,759</u>
Intragovernmental earned revenue	-0-	-0-
Public earned revenue	-0-	20,000
Total earned revenue	<u>-0-</u>	<u>20,000</u>
Net costs	9,922,699	10,834,759

National Endowment for the Humanities
Notes to the Financial Statements
As of and For the Fiscal Years Ended
September 30, 2006 and 2005
(In US Dollars)

Note 12 – Intragovernmental Costs and Exchange Revenue (continued)

<u>Programs</u>	<u>2006</u>	<u>2005</u>
<u>Other Programs</u>		
Intragovernmental costs	289,426	304,000
Public costs	767,785	275,209
Total costs	<u>1,057,211</u>	<u>572,209</u>
Intragovernmental earned revenue	-0-	-0-
Public earned revenue	-0-	-0-
Total earned revenue	<u>-0-</u>	<u>-0-</u>
Net costs	1,057,211	572,209
<u>Costs not Assigned to Programs</u>		
Intragovernmental costs	4,935,901	3,002,858
Public costs	11,144,379	15,334,713
Total costs	<u>16,080,280</u>	<u>18,337,571</u>
Intragovernmental earned revenue	26,225	170,365
Public earned revenue	-0-	-0-
Total earned revenue	<u>26,225</u>	<u>170,365</u>
Net costs	16,054,055	18,167,206
<u>Total</u>		
Intragovernmental costs	5,805,287	4,217,999
Public costs	135,066,648	153,606,937
Total costs	<u>140,871,935</u>	<u>157,824,936</u>
Intragovernmental earned revenue	1,503,540	1,513,533
Public earned revenue	-0-	367,293
Total earned revenue	<u>1,503,540</u>	<u>1,880,826</u>
Net costs	<u>\$139,368,395</u>	<u>\$155,944,110</u>

National Endowment for the Humanities
Notes to the Financial Statements
As of and For the Fiscal Years Ended
September 30, 2006 and 2005
(In US Dollars)

Note 13 - Restatements

Unexpended Appropriation

A review of prior fiscal year 2005 transactions uncovered a \$1,460,902 erroneous unexpended appropriation account balance in a reimbursable fund. This erroneous account balance was brought forward from the legacy accounting system to the new financial system during system conversion. This erroneous balance overstated the unexpended appropriation balance in the amount of \$1,460,902 and understated the cumulative results of operations by the same amount on the relevant NEH audited financial statements, as of September 30, 2005. A prior period adjustment was recorded to recognize and correct the unexpended appropriation balance in the amount of \$1,460,902. The overall net position, however, on the audited financial statements, as of September 30, 2005, remains unchanged. The comparative amounts on the fiscal year 2005 audited Balance Sheet and Statement of Changes in Net Position have been restated to reflect this change in unexpended appropriation.

Capital Lease

NEH entered into a capital lease arrangement in fiscal year 2005 for the purchase of photocopier machines. During fiscal year 2005, the payments for the photocopier machines were incorrectly expensed rather than capitalized as required by the standards promulgated by the Federal Accounting Standards Advisory Board. In addition, the appropriate related budgetary entries were not recorded as required by the Office of Management and Budget's Circular A-11. NEH has recorded the necessary prior period adjustment entries and has now capitalized the purchase of the photocopier machines on the fiscal year 2006 financial statements. Because the purchase of the photocopier machines was not capitalized in fiscal year 2005, liabilities were understated by \$218,377, assets were understated by \$244,379, expenses were understated by \$2,509, accumulated depreciation was understated by \$28,511, unobligated balances were overstated by \$218,377, and expended authority was understated by \$218,377. The comparative amounts on the fiscal year 2005 audited Balance Sheet and Statement of Changes in Net Position have been restated to reflect the capital lease purchase.

National Endowment for the Humanities
Notes to the Financial Statements
As of and For the Fiscal Years Ended
September 30, 2006 and 2005
(In US Dollars)

Note 14 - Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

Obligations Incurred	<u>2006</u>	<u>2005</u>
Direct:		
1. Category A total, direct obligations	\$ -0-	\$ -0-
2. Category B Total, direct obligations	142,518,801	139,271,581
3. Exempt from apportionment	-0-	-0-
Reimbursable:		
1. Category A total, direct obligations	42,336	443,137
2. Category B Total, direct obligations	1,849,405	1,276,000
3. Exempt from apportionment	<u>-0-</u>	<u>-0-</u>
Total Direct and Reimbursable	<u>\$144,410,542</u>	<u>\$140,990,718</u>

Note 15 – Exchange Revenues for Reimbursable Services Activities

Pricing policy - prices set for products and services provided by the National Endowment for the Humanities are intended to recover the full costs incurred.

Note 16 – Undelivered Orders at the End of the Period

On the Statement of Budgetary Resources, the obligated balances, net, end of period includes the following:

	<u>2006</u>	<u>2005</u>
Unpaid obligations:		
Undelivered orders	\$100,260,810	\$97,997,898
Accounts payable	22,315,885	21,304,211
Less: uncollected customers payments from		
Federal sources	<u>1,026,225</u>	<u>378,717</u>
Total, unpaid obligated balance, net, end of period	<u>\$121,550,470</u>	<u>\$118,869,392</u>



NATIONAL
ENDOWMENT
FOR THE
HUMANITIES

OFFICE OF THE CHAIRMAN

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October 31, 2006

Mr. Leon Snead
Leon Snead & Company, P.C.
416 Hungerford Drive
Rockville, Maryland 20850

Dear Mr. Snead:

This is in response to the draft of the "Independent Auditor's Report" that was distributed at our exit conference on October 30, 2006.

We are delighted to have received an unqualified opinion on our financial statements as of September 30, 2005 and 2006. We have worked very hard over the past two years to develop and put in place a financial management system that is capable of accurately documenting the agency's financial position. This said, we realize that more work needs to be done, particularly in addressing the issue of separation of incompatible duties. We will pursue this matter aggressively in the coming months.

In behalf of our entire team here at NEH let me thank you for the excellent work of your staff on this year's audit. It has been a pleasure working with Pat Layfield and her talented and dedicated colleagues.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Thomas", written over a horizontal line.

Jeffrey Thomas
Assistant Chairman for Planning
and Operations



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TOP MANAGEMENT CHALLENGES

As of Fiscal Year Ended September 30, 2006

Successfully Implement an Agency Financial Management System

NEH has made significant progress with the web-based accounting system developed by the Oracle Corporation. Many problems implementing the new system have been corrected. An interface has been established between the Grants Management System and the accounting system.

Some of the problems that will have to be addressed in fiscal year 2007 are:

- Separation of incompatible duties involving the procurement/contracting function and the accounting office.
- Program fund reports and travel reports provided to the Divisions are not considered timely by some Division officials.

Several of these problems are being addressed as the FY 2006 financial statements are being prepared and audited. NEH has hired an accounting officer that is knowledgeable and qualified to supervise the accounting staff and manage the financial operation. We strongly recommend that the Accounting Office hire a highly qualified accountant that is familiar with the Oracle system operated by NEH. This person should be capable of handling day-to-day activities and thereby free the accounting officer to perform managerial duties. The process of hiring of this person should begin as soon as the report on the FY 2006 financial statements is issued by the independent public accounting firm.

Strengthen Information Security

- As E-commerce increases, i.e., Grants.Gov, NEH will be more susceptible to outside and *inside* risks. Also, telecommuting creates additional security concerns. NEH's Office of Information Resources Management (OIRM) must proactively monitor system intrusions to determine if user accounts and passwords have been compromised.

- NEH will be providing computer hardware and software to the National Archives and Records Administration (NARA) for NARA's use in managing their grant administration program. NEH has to determine what effect these additional responsibilities and risks have from a security viewpoint.

Continue to Improve Planning and Performance Measurement in Accordance with the Results Act

- Over the past several years, NEH has made progress. However, more needs to be accomplished. The OIG recognizes that measuring the benefits of many NEH programs is difficult. In many areas, NEH places more emphasis on outputs than outcomes. NEH should gradually have the divisions collect outcome-type data from grantees. For instance, while we learn that a high school teacher is imparting his/her new summer seminar knowledge to 250 students a year (guestimate), we should try to learn the effect on the students. Do they read more books on the topic, are they thinking about taking more courses on the same topic in college? What real effect does a summer seminar have on the students of the person attending the seminar? In addition, what does the school principal and the department chair see as the outcome of the teacher taking the seminar?

Information Resource Management

- NEH has made and continues to make significant progress on e-gov and is moving towards the eventual goal of having grantees submit complete proposals electronically, reviewing the proposals on-line, and processing proposals electronically. This long-term e-government project of the President's Management Agenda has several agencies working together. We will be listing this as a management challenge until a significant amount of grants is processed completely through e-gov in an economical and efficient manner.

Human Capital

- The Comptroller General of the United States has cited human capital as a high-risk area. Similar to many Federal agencies, NEH will be facing the retirement of a large amount of staff within the next several years. One office, the Office of Grant Management, has the possibility of having a complete turnover of staff within the next three to six years. NEH's challenge is to evaluate how retirements will change the agency. Now would also be a good time to review workflow of all offices and divisions and determine if any workload and mission realignments are necessary.

Continuity of Operations

- After September 11, 2001, the agency began Continuity of Operations Planning (COOP); however, a formal plan has not been completed and distributed to NEH

staff. In the recent flooding problem at the Internal Revenue Service building (our building's supplier of air conditioning), exemplary work by NEH staff saved the agency many problems. Mainly, our grantees were provided with funds requested in a timely manner. In addition, the Administrative Services Officer worked diligently with the building's owner (General Services Administration) to secure temporary air conditioning and heating units to service the building. In addition, the system used to notify employees of the building's status performed extremely well. Unfortunately, a majority of the staff was on administrative leave for several days. NEH needs a plan that will restore staff productivity within an acceptable timeframe if a man-made or natural disaster prevents employee access to the building.

MEMORANDUM

Date: November 15, 2006

To: Sheldon Bernstein
Inspector General

From: Bruce Cole
Chairman

Subject: Response to OIG Memorandum Concerning Top Management Challenges

Thank you for your thoughtful assessment of the most significant management challenges facing the agency at the conclusion of fiscal year 2006. I appreciate your acknowledgement of the many strides the agency has made in the areas of financial management, performance measurement, and information resources management. And I also agree that much work remains to be done in these and the other areas you identify as management challenges:

Financial Management. In the coming year we will make a concerted effort to resolve the lingering problems related to the separation of incompatible duties and to the timely production and distribution of internal financial reports. Concerning the former, we are planning to recruit a systems accountant to assist the NEH's Accounting Officer in the day-to-day management of the agency's Oracle financial management system. As this new person becomes familiar with the system, we will ask him or her to work with the Directors of the Administrative Services Office and Office of Information Resources Management to clarify and resolve lingering issues concerning the separation of incompatible duties. We will make a similar effort to resolve the problems we have encountered in producing accurate and timely financial reports. We have already made significant progress in this area, as we have made effective use of Oracle's "Discoverer" tool to develop new templates for the monthly reports.

Information Security. You raise some important information security issues that call for the agency's heightened attention. Telecommuting, for example, has become an important part of agency business. But in order to maintain appropriate security and privacy levels, the agency must make sure we have sufficient IT security resources in place. In response to OMB M-06-16, which addresses the kinds of security resources that agencies should be using, I have directed my Chief Information Officer to carefully study the costs and benefits of moving our telecommuting system to "two-factor" authentication. I have also asked him to address the security risks associated with NEH's participation in Grants.gov, and similarly with our new interagency partnership to provide grants management services to the National Archives.

Performance Measurement. NEH currently requires its grantees to submit a report of project accomplishments at the conclusion of the grant. As part of this final performance report, the Endowment asks grantees to address, to the extent possible, the quantitative and qualitative accomplishments or outcomes of their projects, especially in terms of how the outcomes compare to the objectives proposed in the original grant application.

We would note that NEH recently revised and updated its multi-year strategic plan. The new plan, which covers fiscal years 2007 through 2012, contains a number of new or revised strategies for achieving our major goals objectives. Accordingly, in FY 2007, the Endowment is planning to revise the performance indicators that are linked to those objectives. This effort will afford us an opportunity to consider placing more emphasis on collecting outcome-type data.

Information Resource Management. As of the end of fiscal year 2006, 100% of NEH's grant applications were being submitted electronically, putting us among the leaders in government. We are also reviewing a large number of proposals online and, later this fiscal year, will begin receiving post-award reports online as well. So we believe we are making substantial progress in bringing the agency's grant processes fully online. That progress is expected to continue through FY 2007 and beyond.

Human Capital. We share your concerns about the looming retirement of large numbers of NEH staff members. In the case of the one office that poses the most immediate challenge—the Office of Grant Management—we are already working with the senior leadership to develop and implement a transition plan. One new hire is imminent, and another is anticipated for the summer of 2007. In both cases, new staff members are being brought aboard well in advance of the departures of the long-tenured staff they'll be replacing. We expect to be similarly proactive in addressing the human capital needs of other offices at NEH that face similar demographic challenges.

Continuity of Operations. We share your concerns about the need to do more and better planning in this area. I have asked our Assistant Chairman for Planning and Operations to take a fresh look at the agency's draft COOP plan to determine how it should be modified to reflect the lessons learned from this past summer's week-long shutdown of the Old Post Office building, and also to anticipate the possibility of extensive staff absences in the event of a flu pandemic.